

# Washoe County Total Portfolio

## Fourth Quarter 2025

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# Competing Forces Shaping the Rate Path

The fourth quarter of 2025 finds the U.S. economy navigating a complex mix of supportive growth drivers and emerging headwinds. Policy initiatives, tax dynamics, corporate investment, and productivity gains from technology continue to underpin economic activity, even as housing, credit conditions, and labor market momentum show signs of moderation. Inflation risks tied to tariffs, fiscal deficits, and supply constraints remain present, but are increasingly counterbalanced by policy uncertainty, data limitations, and cooling demand in interest-sensitive sectors. The T-ledger below summarizes these competing influences and frames the ongoing debate around the direction of interest rates.

## Higher Rates / Faster Growth

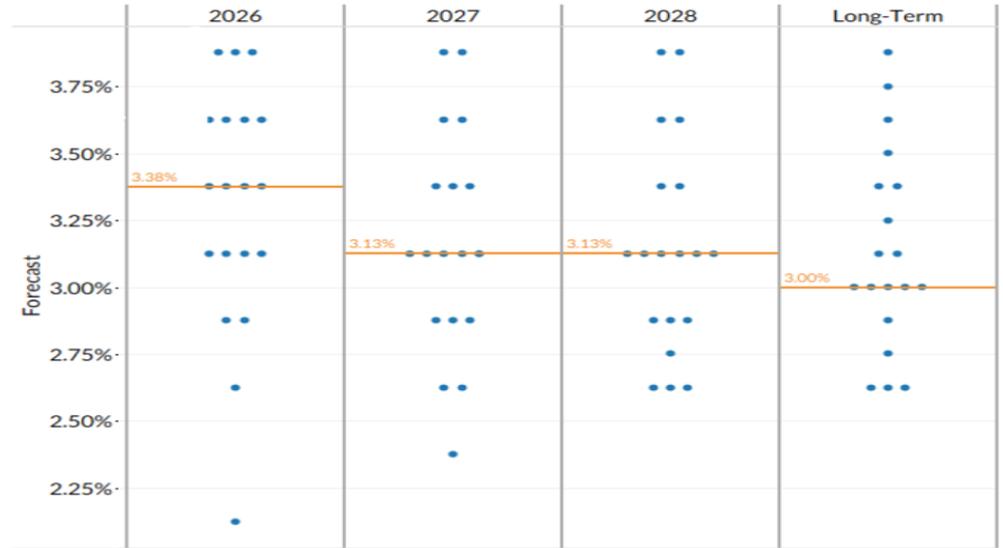
Productivity Gains  
Constraints in Labor Supply  
Consumer Wealth Effect  
Fiscal Deficits  
Corporate Capex  
Deregulation  
Tax Policy  
Tariffs / Goods Inflation

## Lower Rates / Slower Growth

Changing Makeup of the Fed  
Housing Deflation  
Weakening Labor Market  
Geopolitical Risk  
Policy Uncertainty  
Consumer Credit Stress  
Economic Data Lags and Reliability  
Small Business Confidence

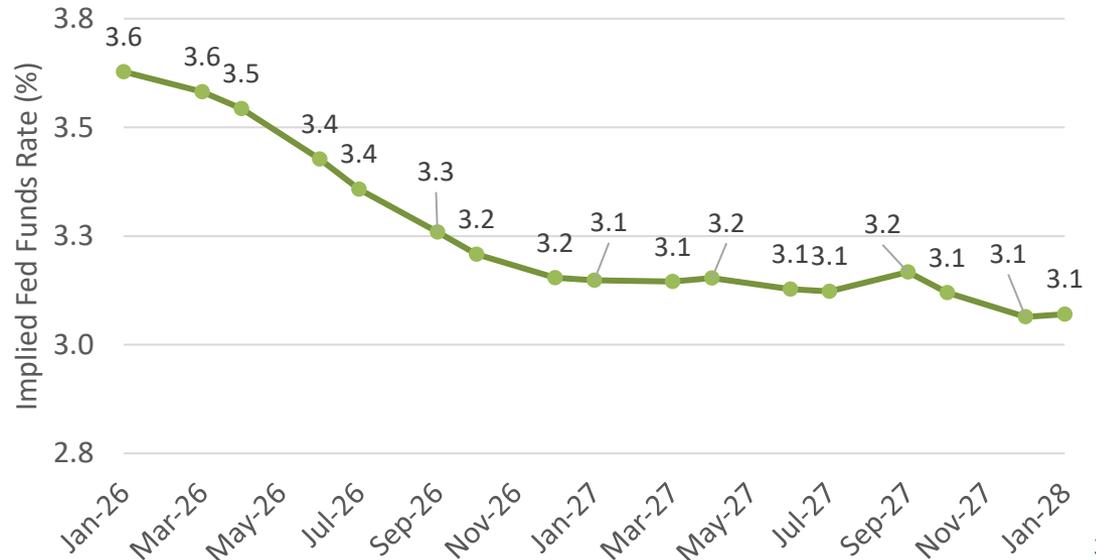
# Outlook for Fed Funds

Both the Fed and futures market expect rates to come down over the next year. Implied rates trend toward the low-3% range over the next 12–18 months. The Federal Reserve believes that rates are approaching the range of neutral, indicating that the Fed may implement a “wait-and-see” approach in the coming meetings.



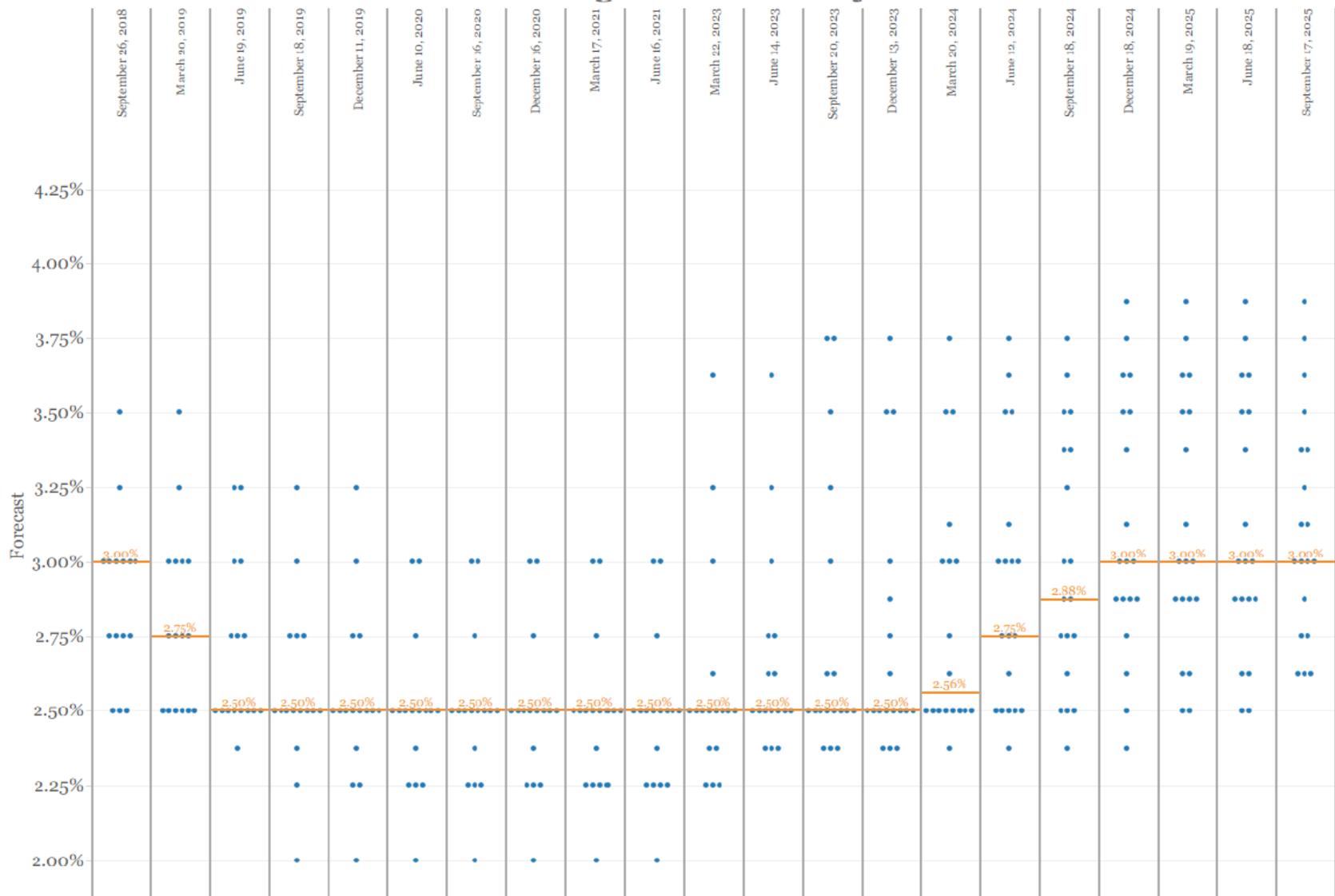
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Implied Fed Funds as of Fed Meeting Dates

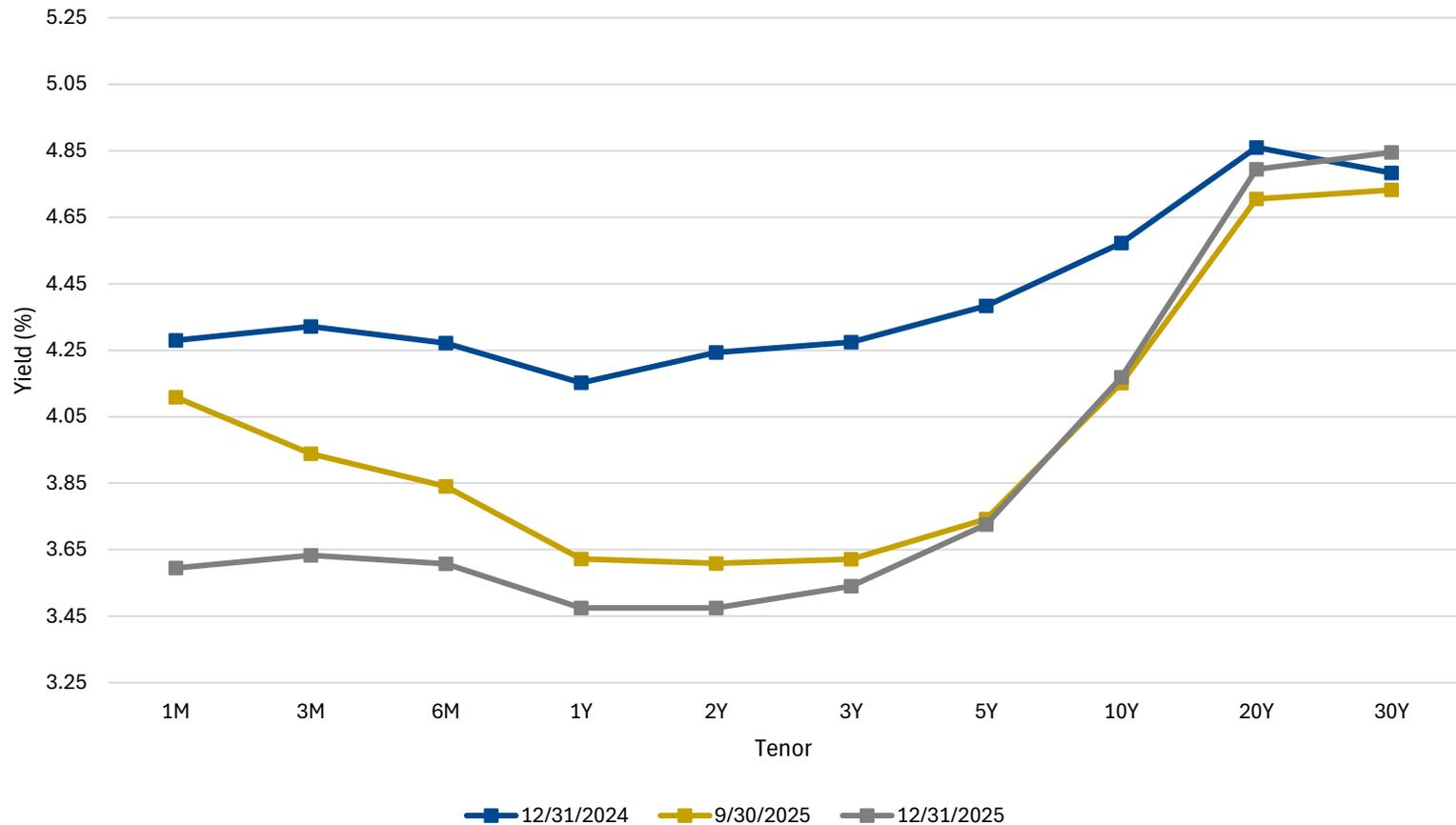


“The Fed funds rate is now within a broad range of estimates of its neutral value, and we are well positioned to wait to see how the economy evolves.” - **Federal Reserve Board Chairman Jerome Powell**, FOMC Press Conference (December 10, 2025)

# Changing Long Term Rate Projections



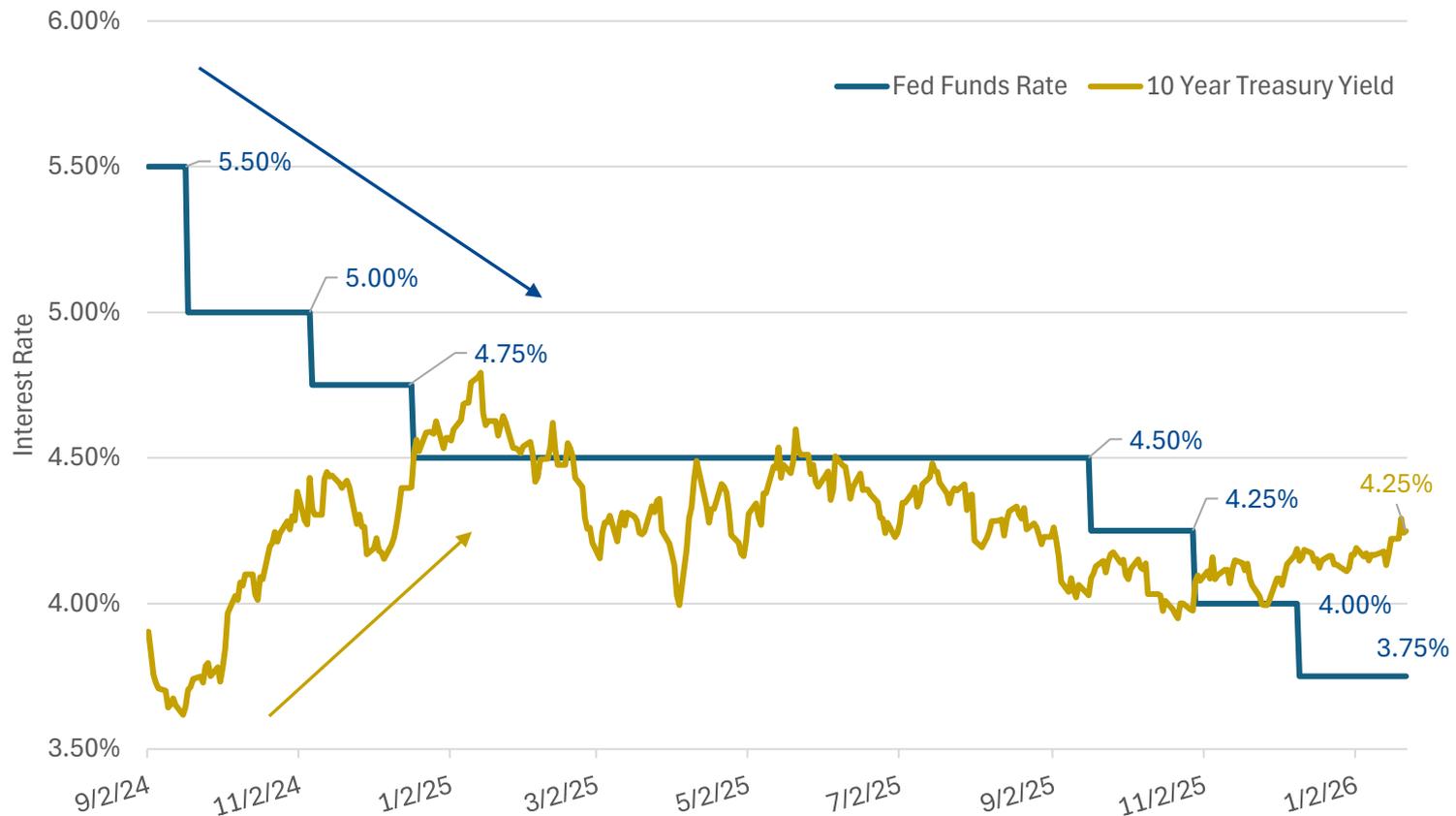
# Yield Curve Changes



The Fed's rate cuts in October and December contributed to the continued flattening of the yield curve during Q4 2025 with yields dropping roughly 40 basis points in the three-month part of the curve, and 15 basis points in the 1-3 year part of the curve. Long-term yields remained elevated amid fiscal and inflationary uncertainty.

# Fed Funds and the 10-Year Treasury Yield

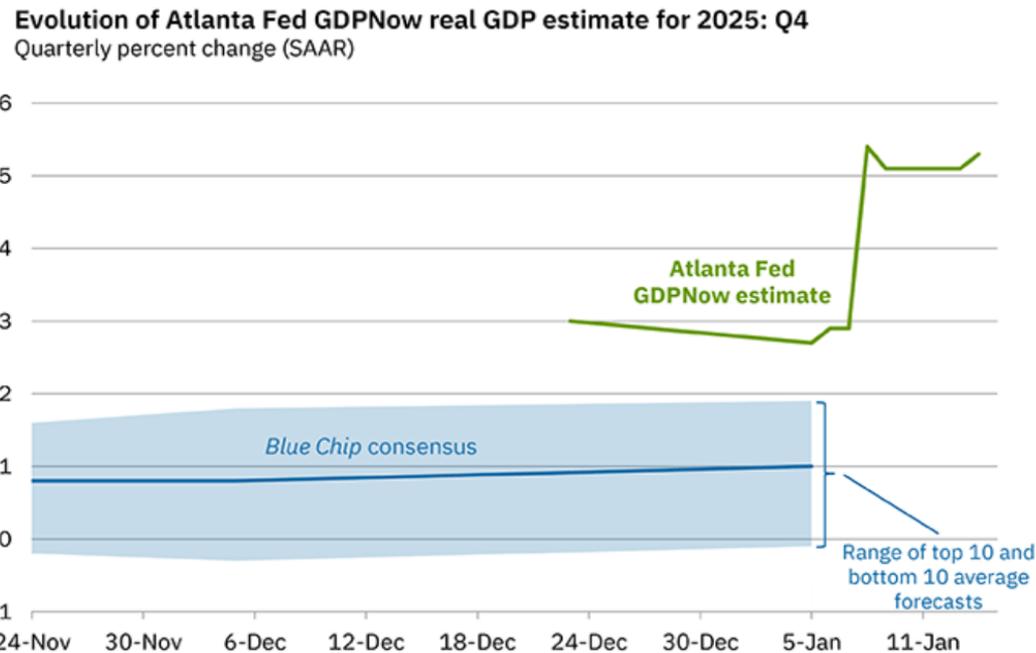
10-Year US Treasury yields rose at the beginning of the Fed's current easing cycle in September of 2024. The Fed paused rate cuts in December 2024, with Fed Funds at 4.5%, and resumed in September 2025. Despite 75 basis points of cuts in the second half of the easing cycle, long-term yields rose or held firm due to stronger-than-expected U.S. economic growth, which reduced expectations for deep or prolonged easing. Persistent inflation concerns, elevated fiscal deficits leading to higher Treasury issuance, and increased term premiums (compensation for holding longer-duration debt amid uncertainty) prevented long yields from declining in tandem.



# Atlanta Fed Predicts Higher than Consensus GDP Growth

The Atlanta Fed's GDPNow model currently estimates real GDP growth at 5.3% for Q4 2025. This is significantly higher than consensus forecasts. GDPNow is based on real-time data and reflects current-quarter momentum (Q4 2025), suggesting the economy ended 2025 stronger than expected based on available data. How is economic growth calculated? At the simplest level, economic growth can be expressed as:

$$\% \Delta \text{GDP} \approx \% \Delta \text{Labor Force} + \% \Delta \text{Labor Productivity}$$



“Imagine a world maybe where we’re [the economy] growing at three and a half or four [percent.] Things are really good, but the unemployment rate keeps ticking up. The smartest AI guys I know...These are the people that are telling me in meetings we’re going to lose three to five million jobs in the next three to four years. Maybe even faster.”

- David Zervos, CNBC interview, 9/27/25

# Economic Surprises to the Upside

The Surprise Index measures whether actual economic data is better (positive surprise) or worse (negative surprise) than consensus expectations. Economic surprises turned sharply positive in October 2025, and remained positive through the end of 2025, suggesting that economists may be overly pessimistic about the current state of the US economy.

Bloomberg Economic Surprise Index



# Break-Even Employment Has Moved Significantly Lower

“Growth isn’t one of our three. We have two mandates, as you know. The labor market, maximum employment is one, and stable prices is another.”

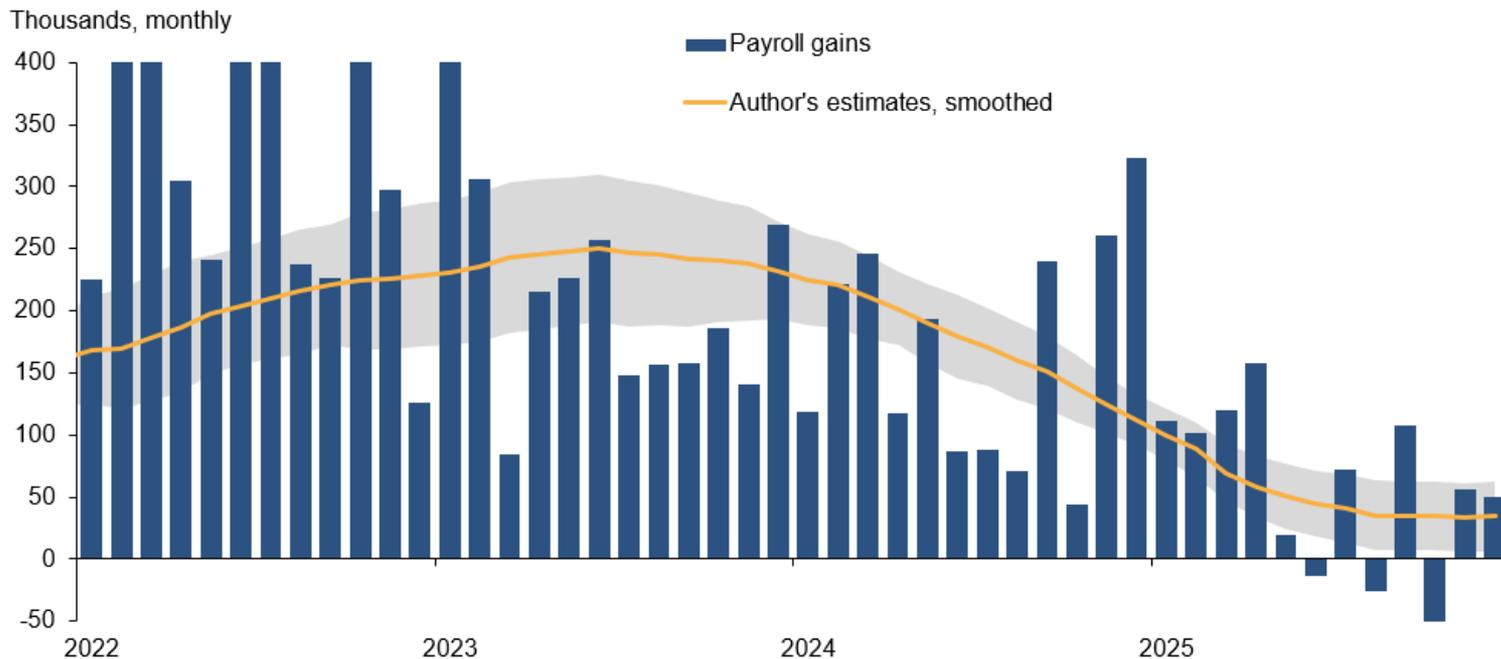
- **Federal Reserve Chair Jerome Powell**, FOMC Press Conference (July 31, 2024)

“You know, so there are many different ways to calculate it and none of them is perfect, but, you know, it’s clearly come way down. There are—**you could say it’s somewhere between zero and 50,000, and you’d be right or wrong**. I mean, there’s just many different ways to do it. So wherever it was—150,000, 200,000 a few months ago—it’s come down quite significantly. And that’s because a very—a lower amount of people are joining the labor force. The labor force is really not growing much at this point.”

- **Federal Reserve Chair Jerome Powell**, FOMC Press Conference (September 17, 2025)

The Dallas Fed now estimates the economy needs only about 30,000 new jobs per month—down from roughly 250,000 in 2023—to keep unemployment steady, reflecting slower population and labor-force growth. Payroll gains above this lower threshold suggest a stable, rebalanced market.

## Breakeven estimate and recent payrolls trend lower



NOTE: Gray area illustrates estimate range.

SOURCES: Bureau of Labor Statistics; author's calculations.

# Productivity Offsetting Slower Labor Growth

With labor force growth slowing from roughly 1.2% in 2023–24 to below 1% by Q3 2025—reflecting demographic constraints and reduced immigration—sustaining GDP growth near potential increasingly requires productivity gains of 2% or more. Recent data show this dynamic taking hold, with labor productivity accelerating to 3.5% in Q2 and 5.0% in Q3 2025, consistent with broader technology adoption and efficiency improvements.

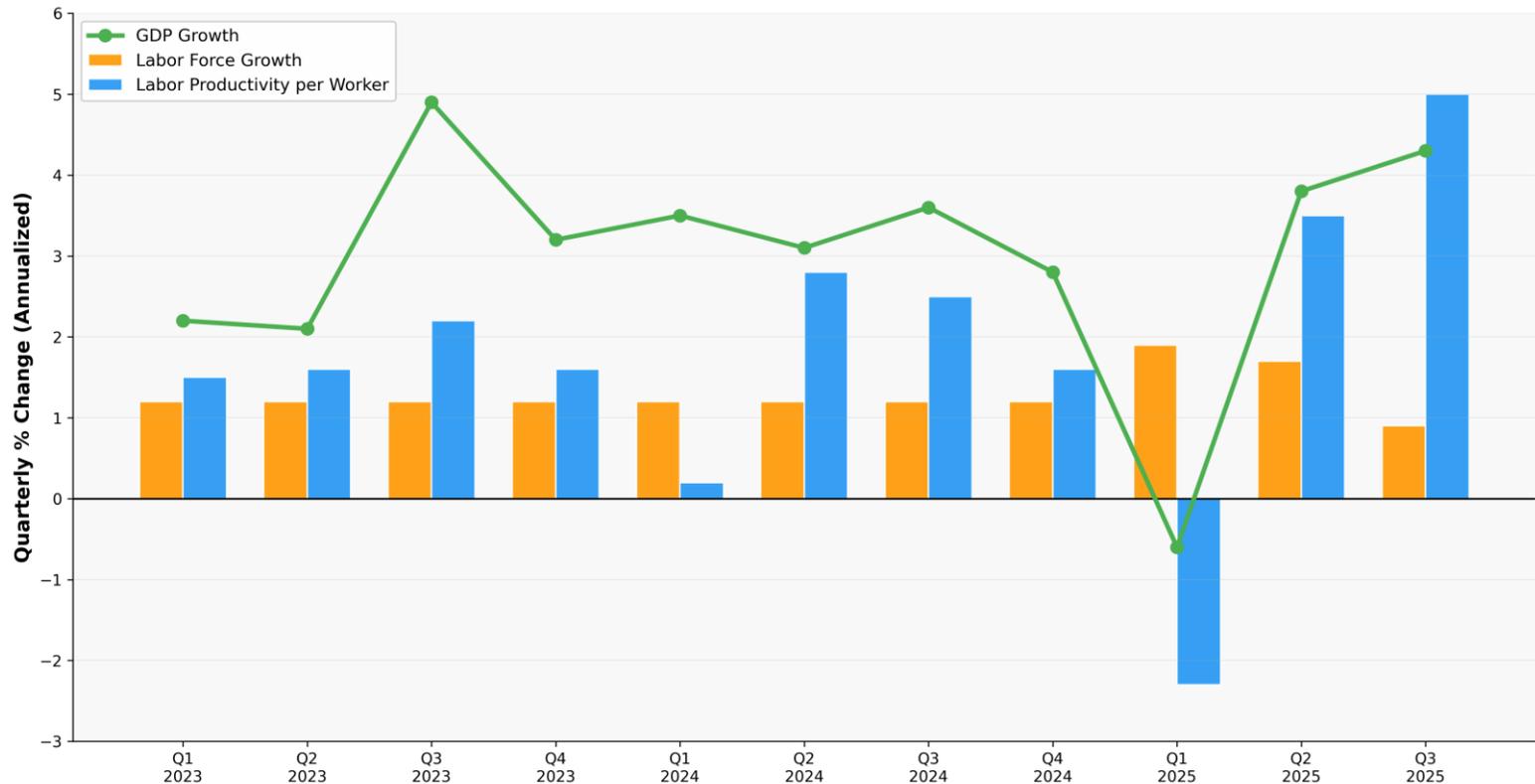
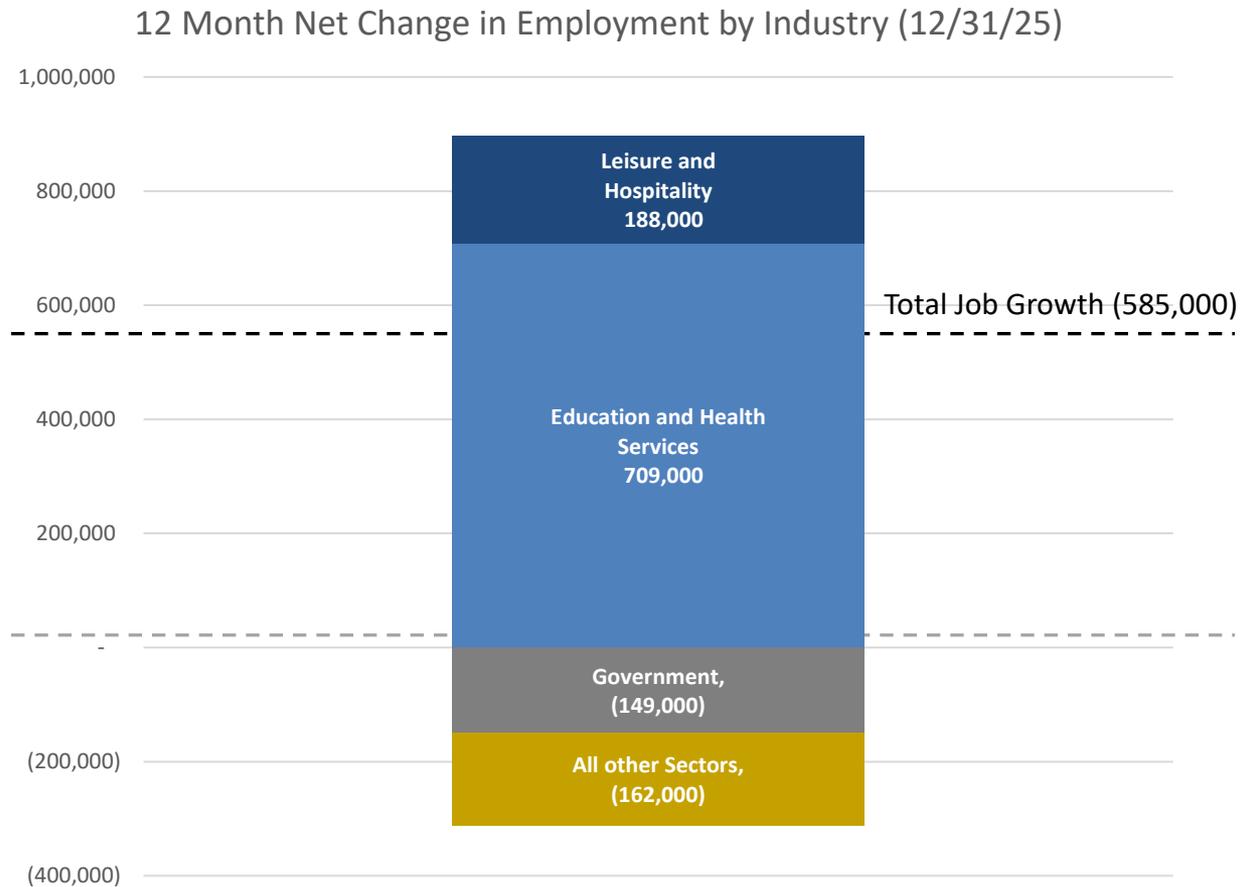


Chart shows two key drivers of economic growth: labor force expansion and productivity gains per worker. GDP growth (green line) is shown for reference. Labor Productivity per Worker combines output per hour (BLS Productivity and Costs, Nonfarm Business sector) and changes in average hours worked. Labor force growth based on civilian labor force (FRED CLF16OV)

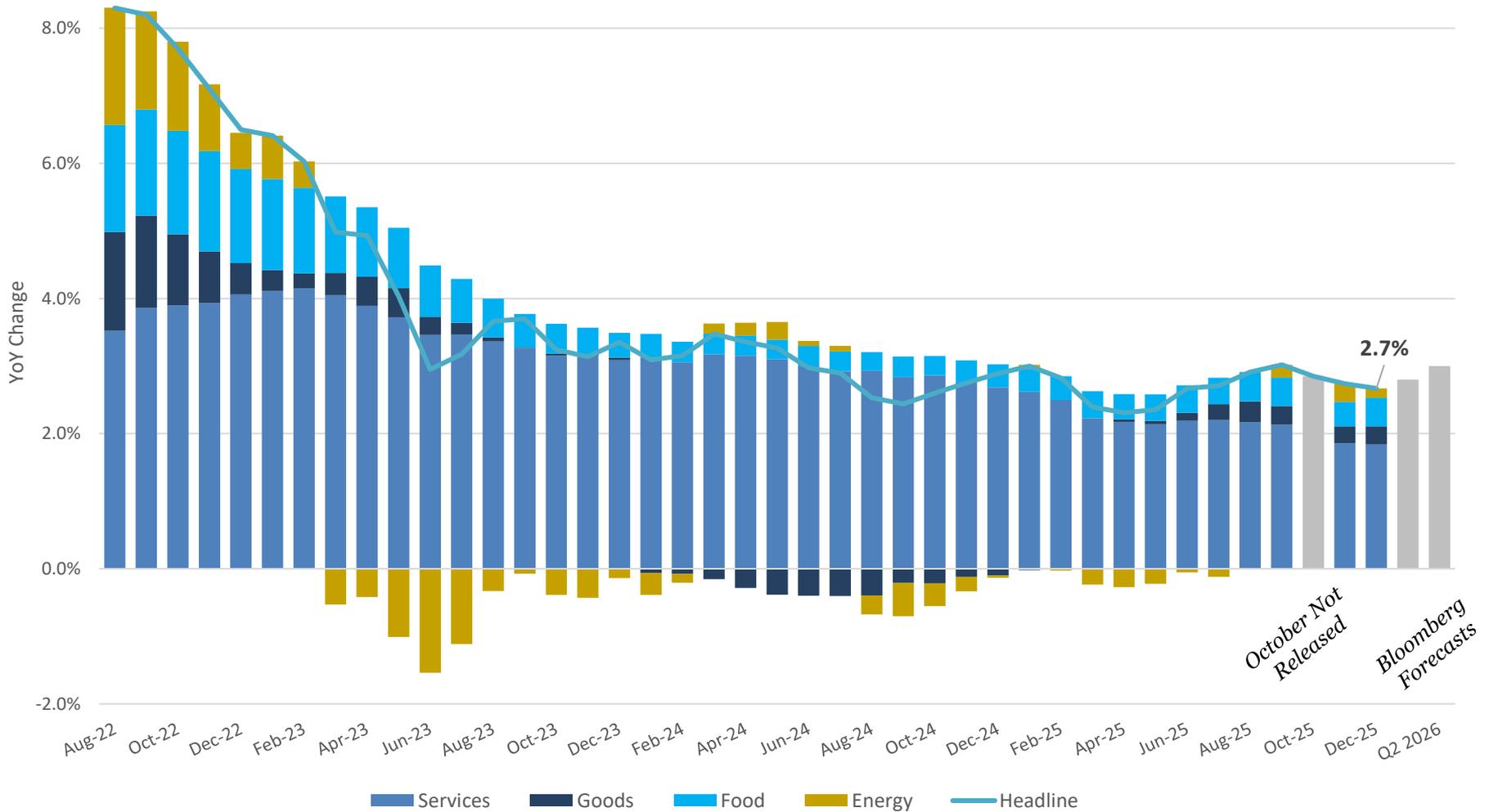
Sources: Bureau of Labor Statistics (Productivity and Costs, Current Population Survey), Bureau of Economic Analysis (GDP), Federal Reserve Economic Data (FRED)

# Two Sectors Prop Up Job Growth

Job growth in 2025 was limited, with approximately 585,000 net jobs added for the year. Nearly all gains were concentrated in Education and Health Services and Leisure and Hospitality, reflecting demographic-driven demand in health care and continued normalization in service-sector employment. Outside these areas, employment was largely flat or declining, underscoring how narrow job growth has become.



# CPI Contributors and YoY Reading

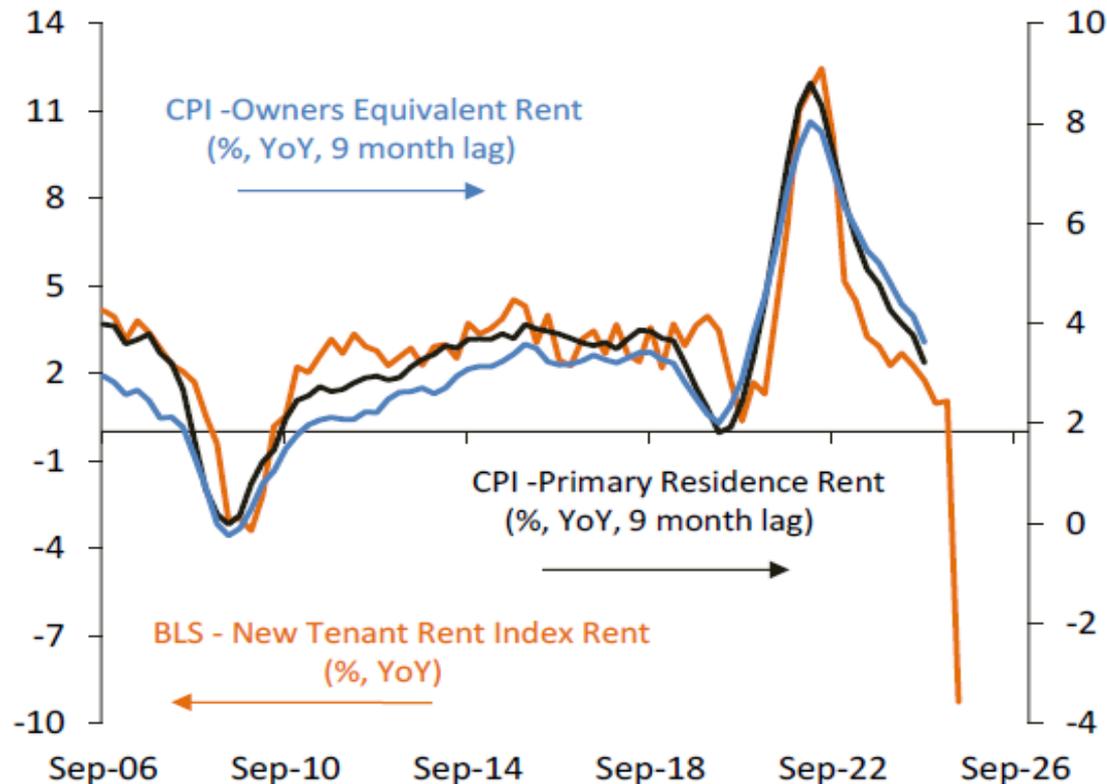


Source: Bloomberg, Bureau of Economic Analysis, as of December 2025.

# CPI Shelter Component vs. Observed Housing Costs

“2% is the target, and there are a lot of people that point to measured inflation at 3%. But my point is, the vast majority of the inflation excess over target is a result of quirks in how inflation is calculated..... The way that housing inflation is measured is really lagging because it looks at all rents, and people usually only reset their rents when they leave....That means leases, all leases, will lag current market rents. So we know there is a real lag there. And we know market rents have been growing at a 1% rate for a couple of years now at least. So there's going to be a lot of downward conversions in shelter inflation.” – **Federal Reserve Governor Stephan Miran – CNBC Interview, 12/15/25**

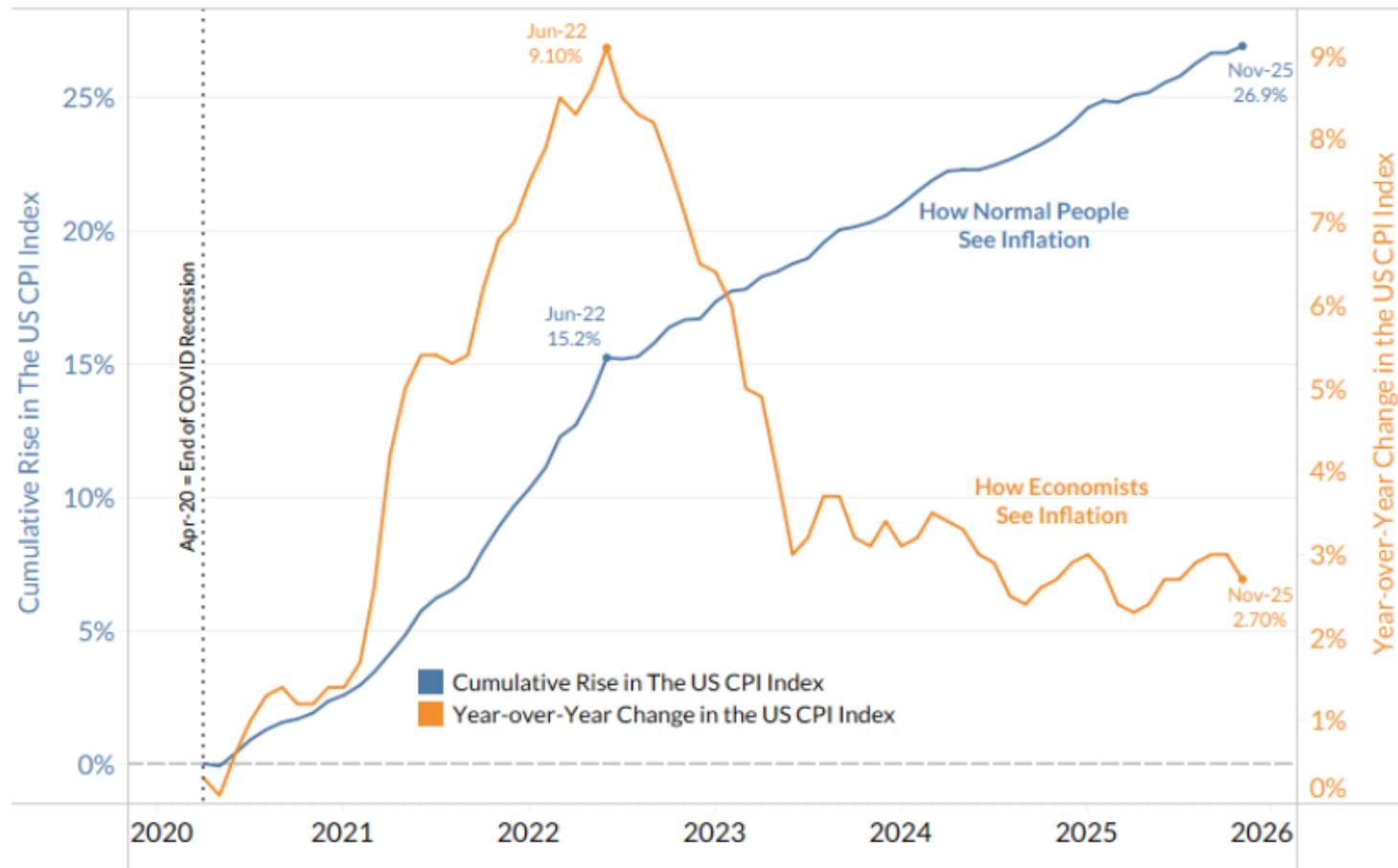
## Shelter Disinflation is in the Pipeline as New Lease Data Point to Further Easing Ahead



Source: Cleveland Fed, Bureau of Labor Statistics, Bloomberg, Piper Sandler

# Two Views on Inflation

While economists look at the year-over-year change in CPI and see those inflation changes approaching the Fed's target range, consumers are feeling the impact of the cumulative increase in CPI over the past several years, which has drastically reduced their purchasing power.

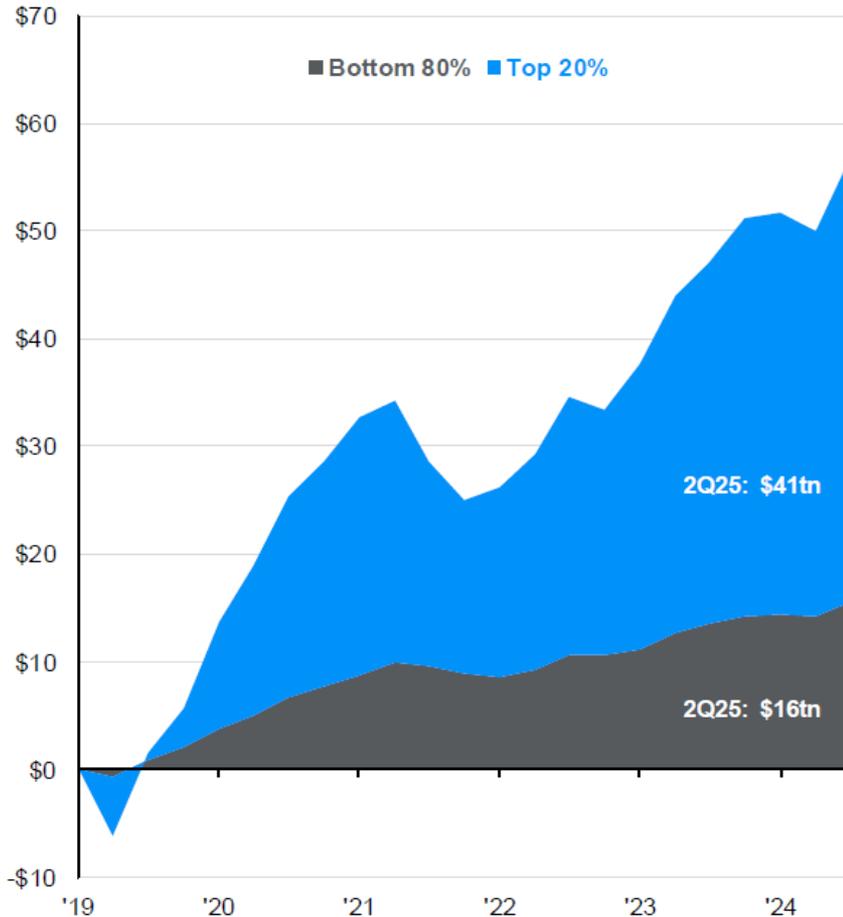


# Wealth Concentration: The “Haves” and “Have-Nots”

Wealth in the U.S. is highly concentrated, with the top 50% of households holding ~95% of total net worth, while the bottom 50% owns just 2–3%. The gap has widened over the past decade due to surging asset values disproportionately benefiting the wealthy, who own most equities and higher-value homes, continuing to widen the gap in the “K” shaped economy.

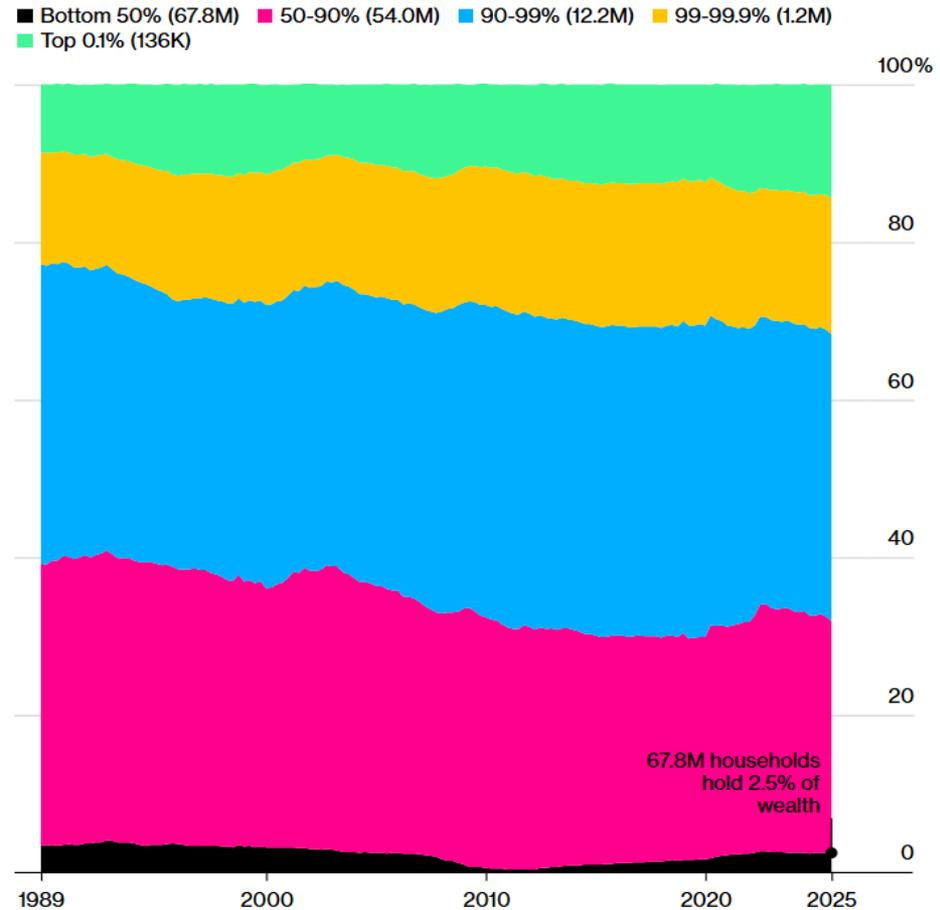
## Net worth growth by income cohort

Cumulative growth from 4Q19, by pre-tax income cohort, USD trillions



## Distribution of US Household Wealth

Concentration of wealth at record among top 0.1% of households



# Fixed Income Process: Strategy Overview

## Duration



**Neutral to Long:** We remain modestly long in duration relative to neutral, though closer to neutral than in recent quarters following the Fed's cumulative 175 basis points of rate cuts. With yields normalizing closer to the Fed's longer-term neutral range and Committee members signaling increased attention to inflation risks alongside growth concerns, the degree of policy restrictiveness is becoming less clear-cut. We maintain a measured stance positioned to benefit from potential further cuts while preserving flexibility as these competing forces continue to shape the rate path.

## Curve Position



**Bullet** – The front end of the curve remains relatively flat, with normalization continuing from two years through thirty years following the Fed's policy shift. We continue to see two plausible outcomes: (1) a bear steepening if inflation remains sticky, or (2) a bull steepening as rate cuts progress and growth slows. Maintaining a bulleted tilt allows portfolios to benefit from either scenario while preserving balance and flexibility across the curve.

## Sector Rotation

- **Overweight:** Governments, Municipals, ABS, Agency-CMBS
- **Underweight:** Class B and C Office, Corporates, Callables

## Security Selection

In the current rate environment, we continue to favor securities with stable, predictable cash flows while limiting exposure to optionality. With spreads near historical tights, we maintain an emphasis on higher-quality issuers to promote resilience and stability as competing forces continue to shape the cycle.

# Portfolio Characteristics

## Washoe County Total Portfolio

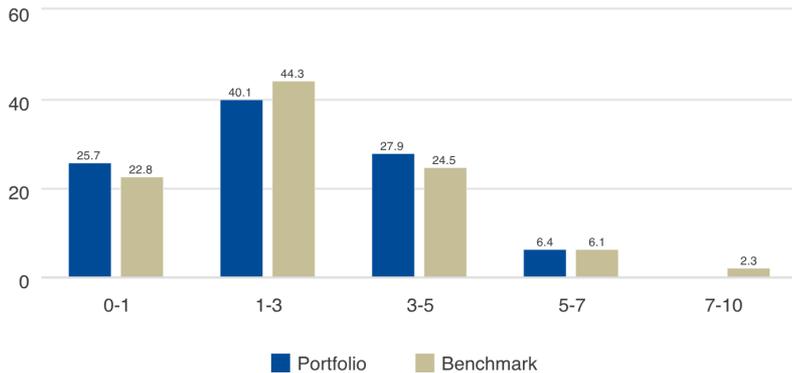
### Portfolio Characteristics\*

	Portfolio	Benchmark
Market Value	\$999,498,199	
Accrued Interest	\$3,974,118	
Total Market Value	\$1,003,472,316	
Average Coupon	3.65	3.06
Est Annual Income	\$35,368,788	
# of Securities	137	
Years to Effective Maturity	2.99	2.70
Effective Duration	2.29	2.48
Market Yield	3.866	3.605
Average Rating	AA+	AA+

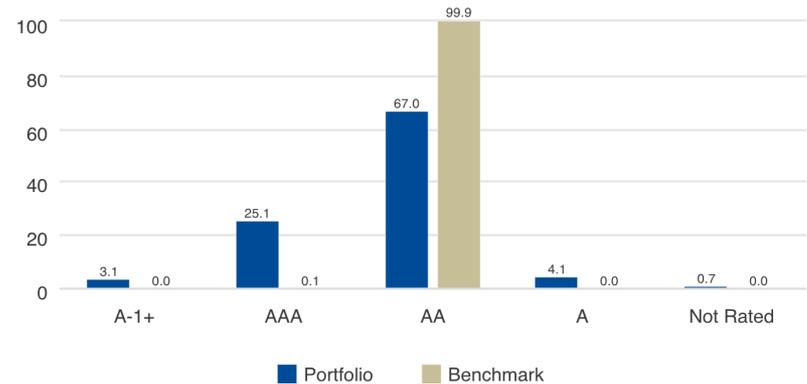
### Distribution by Market Sector

	Portfolio	Benchmark
Cash Equivalents	3.21%	-
U.S. Treasuries	14.50%	100.00%
Agencies	45.98%	-
Corporates	9.62%	-
Commercial Paper	3.13%	-
Asset Backed Securities	22.62%	-
Municipals	0.94%	-

### Distribution by Effective Duration



### Distribution by Quality



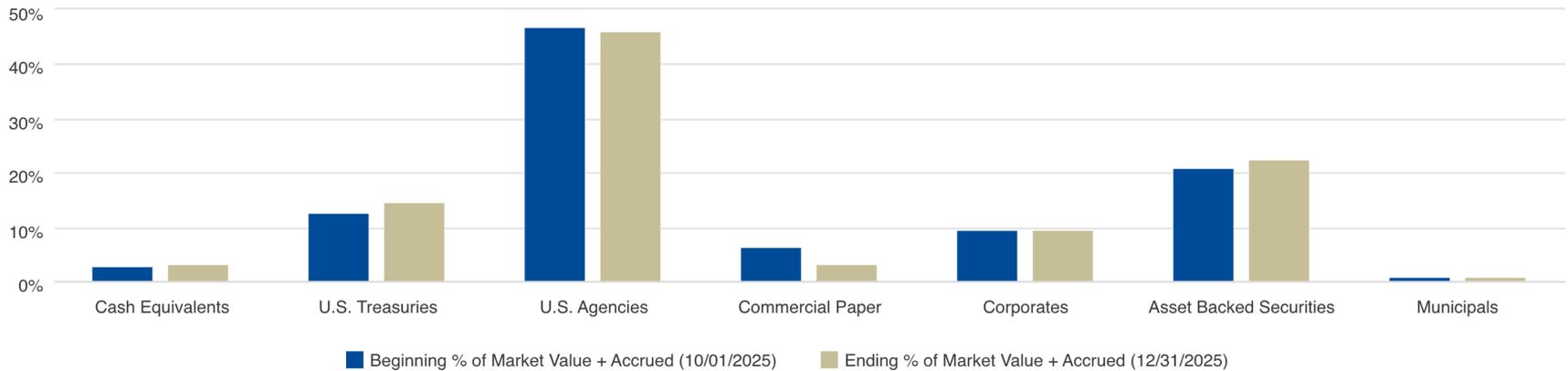
\* The portfolio is benchmarked against the 90% ICE BofA 0-5 Year Treasury/ 10% ICE BofA 5-10 Year Treasury Hybrid Index.

# Distribution by Market Sector

## Washoe County Total Portfolio

### Asset Allocation

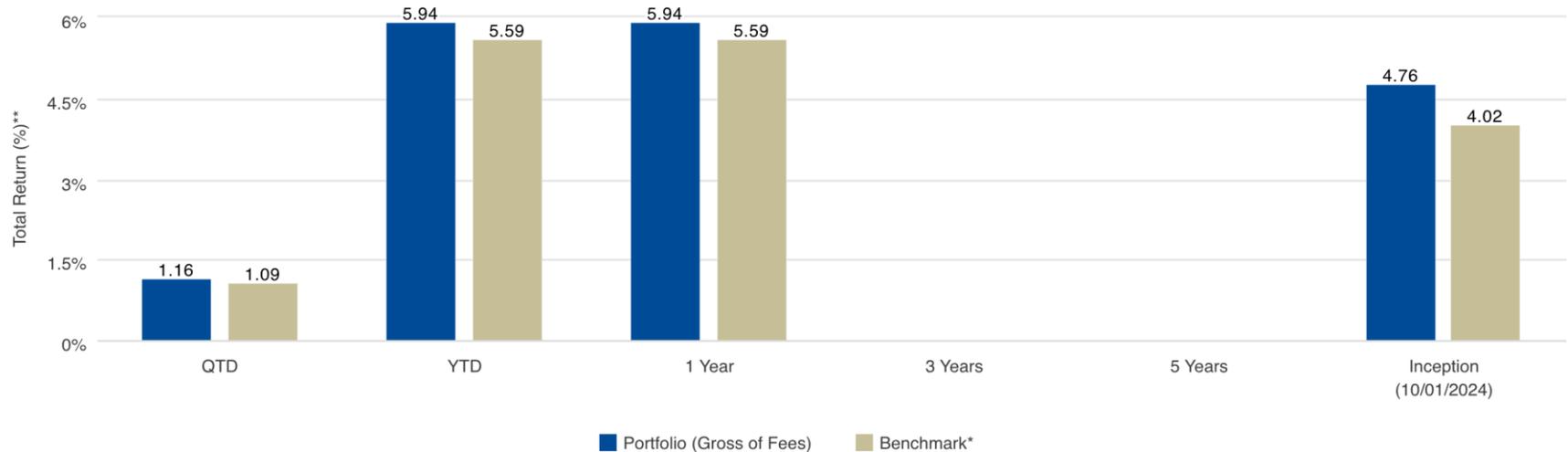
Buckhead Sectors	Ending Market Value + Accrued	Ending % of Market Value + Accrued	Duration	Contribution to Duration	Yield	Contribution to Yield
Cash Equivalents	32,229,829	3.21%	0.00	0.00	3.66	0.12
U.S. Treasuries	145,550,252	14.50%	3.12	0.45	3.43	0.50
U.S. Agencies	461,409,964	45.98%	2.65	1.22	3.99	1.83
Commercial Paper	31,367,872	3.13%	0.08	0.00	3.68	0.11
Corporates	96,495,176	9.62%	2.08	0.20	3.99	0.38
Asset Backed Securities	226,954,543	22.62%	1.63	0.37	3.92	0.89
Municipals	9,464,680	0.94%	2.56	0.02	4.02	0.04
<b>Total</b>	<b>1,003,472,316</b>	<b>100.00%</b>	<b>2.34</b>	<b>2.34</b>	<b>3.86</b>	<b>3.86</b>



# Performance Summary

## Washoe County Total Portfolio

### Portfolio Performance by Period



### Calendar Year Performance

Year	Q1	Q2	Q3	Q4	Annual - Gross of Fees
2025	1.89%	1.47%	1.28%	1.16%	5.94%
2024	-	-	-	0.06%	0.06%

\* The portfolio is benchmarked against the 90% ICE BofA 0-5 Year Treasury/ 10% ICE BofA 5-10 Year Treasury Hybrid Index

\*\*Performance periods greater than one year are annualized. Returns are shown gross of investment management fees and reflect time-weighted total rates of return, including interest income and realized and unrealized gains and losses.

# Income & Earnings Overview

Despite the Federal Reserve having reduced policy rates by more than 175 basis points since the start of fiscal year 2025, the portfolio has continued to generate strong income levels. During the first half of fiscal 2026, the portfolio realized \$21.1 million of income, representing an increase of approximately \$2.7 million compared to the same period in fiscal 2025. Fiscal year-to-date through December, total income before expenses stands at \$25.3 million, modestly exceeding the prior-year period, with results driven primarily by earned income rather than market price appreciation.

## BUDGET COMPARISON OF INVESTMENT EARNINGS

	Full Yr Budget	Budget	Trend **	YTD	Var to Budget
<b>Washoe County</b>					
Interest	\$ 10,780,409	\$ 5,390,205		\$ 13,326,747	\$ 7,936,542
Realized/Unrealized G/(L)	-	-		6,107,876	6,107,876
<b>Total</b>	<b>\$ 10,780,409</b>	<b>\$ 5,390,205</b>		<b>\$ 19,434,623</b>	<b>\$ 14,044,418</b>
<b>General Fund</b>					
Interest	\$ 7,000,000	\$ 3,500,000		\$ 5,932,753	\$ 2,432,753
Realized/Unrealized G/(L)	-	-		3,040,215	3,040,215
<b>Total</b>	<b>\$ 7,000,000</b>	<b>\$ 3,500,000</b>		<b>\$ 8,972,968</b>	<b>\$ 5,472,968</b>

\*\* Budget trend is based on average monthly budget.

## MONTHLY EARNINGS TREND

	Earned Interest	Realized Gain / (Loss)	Unrealized Gain / (Loss)	Total Income Before Expenses	Same Period FY 2025
July	\$ 2,448,410	\$ 528,746	\$ (2,727,700)	\$ 249,457	\$ 9,231,679
August	\$ 3,282,091	\$ 333,237	6,197,928	\$ 9,813,256	\$ 6,885,124
September	\$ 3,039,459	\$ 593,612	(75,901)	\$ 3,557,170	\$ 7,036,504
October	\$ 3,176,914	\$ 301,785	701,251	\$ 4,179,950	\$ (3,766,315)
November	\$ 2,841,885	\$ 387,776	2,318,480	\$ 5,548,140	\$ 5,142,963
December	\$ 2,731,019	\$ 489,703	(1,249,724)	\$ 1,970,998	\$ 479,111
January	\$ -	\$ -	-	\$ -	\$ -
February	\$ -	\$ -	-	\$ -	\$ -
March	\$ -	\$ -	-	\$ -	\$ -
April	\$ -	\$ -	-	\$ -	\$ -
May	\$ -	\$ -	-	\$ -	\$ -
June	\$ -	\$ -	-	\$ -	\$ -
<b>Total Earnings to date</b>	<b>\$ 17,519,778</b>	<b>\$ 2,634,859</b>	<b>\$ 5,164,334</b>	<b>\$ 25,318,971</b>	<b>\$ 25,009,066</b>

# Compliance Report

## Washoe County Total Portfolio

Category	Limit	Value	Status
<b>Concentration</b>			
Tax-Exempt Municipal Securities - Maximum Total Concentration	20.0		Compliant
Max Total Concentration - Non-Negotiable CDs	10.0		Compliant
Max Total Concentration - Repurchase Agreements	50.0		Compliant
Max Total Concentration - Supranationals	15.0		Compliant
Municipals - Maximum Issuer Concentration (as a % of total market value)	10.0	0.5	Compliant
Max Issuer Concentration of Foreign Corporate Bonds	5.0		Compliant
Max Total Concentration - Commercial Paper	25.0	3.1	Compliant
Max Total Concentration - Foreign Corporate Securities	10.0		Compliant
Max Total Concentration - Negotiable CDs	20.0		Compliant
Maximum Total Concentration - Nevada LGIP	20.0	0.7	Compliant
Max Issuer Concentration - Negotiable Certificates of Deposit	5.0		Compliant
Max Issuer Concentration - Non-negotiable Certificates of Deposit	5.0		Compliant
Max Issuer Concentration - Supranationals	15.0		Compliant
Max Issuer Concentration - US Agencies and Instrumentalities	35.0	20.2	Compliant
Maximum Total Dollar Amount Per Bank - Non-Negotiable Certificates of Deposit	250,000.0		Compliant
Agency MBS - Maximum Issuer Concentration (as a % of market value)	25.0	16.6	Compliant
Agency MBS - Maximum Total Concentration (as a % of market value)	40.0	27.2	Compliant
Combination CP, Corp Bonds, and CD - Maximum Issuer Concentration (as a % of market value)	5.0	1.5	Compliant
Corporate Securities - Maximum Total Concentration (as a % of total market value)	25.0	9.6	Compliant
ABS - Maximum Issuer Concentration (as a % of total market value)	5.0	1.7	Compliant
ABS - Maximum Total Concentration (as a % of market value)	25.0	22.6	Compliant
<b>Credit Quality Rules</b>			
ABS-Minimum Rating per Security AAA by one NRSRO	0.0		Compliant
Commercial Paper - Minimum Rating A-1/P-2	0.0		Compliant
Corporates - Minimum Rating per Security A-	0.0		Compliant
If Repurchase Agreement - Minimum Collateralized Amount (as % of security)	0.0		Compliant
Min Credit Rating for CDs (A1/P1)	0.0	0.0	Compliant
Minimum Credit Rating for Municipals (A)	0.0		Compliant
Minimum Credit Rating for Supranationals (AA)	0.0		Compliant
Minimum Credit Rating for Foreign Corporate Bonds (AA)	0.0		Compliant
<b>Maturity Rules</b>			
Maximum Maturity Per Security - Supranationals	5.0		Compliant

1. Certain compliance rules such as ratings minimums and prohibited securities constraints show policy limits as zero, indicating that zero securities are permitted to violate the constraint. For these rules, an actual value of zero indicates that the portfolio is in compliance, and that zero securities are violating the constraint.
2. The compliance report allows for resolutions to be documented if an actual value exceeds a limit. The specific resolution can be found on the client portal site.

# Compliance Report

## Washoe County Total Portfolio

Category	Limit	Value	Status
Maximum Maturity Per Security - Foreign Corporate Bonds	5.0		Compliant
Maximum Weighted Average Life for ABS	5.0	4.5	Compliant
Repurchase Agreement - Maximum Maturity per Security (in days)	90.0		Compliant
Commercial Paper - Maximum Maturity per Security (in days)	270.0	37.0	Compliant
Negotiable Certificates of Deposit - Maximum Maturity per Security	5.0		Compliant
Non-Negotiable Certificates of Deposit - Maximum Maturity per Security	5.0		Compliant
Maximum Average Maturity of Portfolio	3.5	3.0	Compliant
Maximum Maturity Per Security - Municipals	5.0	3.4	Compliant
Corporates - Maximum Maturity per Security (in years)	5.0	4.9	Compliant
Maximum Final Maturity Per Security (in years)	10.0	9.7	Compliant
Minimum % of Portfolio Maturing Within 90 Days	5.0	12.3	Compliant
<b>Prohibited Investments</b>			
Permissible Supranational ISIN/Tickers	0.0		Compliant
144a securities from foreign issuers	0.0		Compliant

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