

Treasurer's Report

[Prepared for Quarterly Board and Executive Meetings – March 21, 2025]

Some recent statistics:

US Fed:

- Benchmark Federal Funds Rate kept in range of 4.25%-4.50% on January 29 (last cut on December 18)
- Next rate decision March 19

US Bureau of Labor, Commerce Department, Census Bureau and Other Sources:

- WSJ Prime Rate currently 7.50% (set December 18)
- CPI +2.8% YoY February; was +3.0% YoY January; was +2.9% YoY December; was 2.7% YoY November
- Core CPI +3.1% YoY February; was +3.3% YoY January; was +3.2% YoY December; was +3.3% YoY November
- PCE +2.5% YoY January; was +2.6% YoY December; was +2.4% YoY November; was +2.3% YoY October
- Core PCE +2.6% YoY January; was +2.8% YoY December; was +2.8% YoY November; was +2.8% YoY October
- PPI +3.2% YoY February; was +3.7% YoY January (rev up); was +3.2% YoY December (rev down); was +2.9% YoY November (rev down)
- Core PPI +3.3% YoY February; was +3.4% YoY January; was 3.5% YoY December (rev up); was +3.6% YoY November (rev up)
- GDP +2.5% for entire 2024 year; was +2.3% YoY in Q4 2024; was +3.1% YoY in Q3 2024 (rev up); was +3.0% (rev up) YoY in Q2 2024; was +1.4% YoY in Q1 2024; was +3.2% for entire 2023 year
- +151,000 jobs in February; +143,000 jobs in January; +307,000 jobs in December (rev up); +261,000 jobs in November (rev up)
- 7.74 million job openings end of January; was 7.6 million end of December; was 8.1 million end of November; was 7.744 million end of October
- Unemployment rate at 4.1% end of February; was 4.0% end of January; was 4.1% end of December; was 4.2% end of November
- +4.3% YoY wage gain in February; was +4.1% YoY in January; was 3.7% YoY in December; was +4.0% YoY in November
- Eggs averaged \$6.85/dozen at March 6 vs. \$3.00/dozen one year ago

Bank of Canada:

- Benchmark rate cut 0.25% to 2.75% on March 12
- Next rate decision April 16

Other Canada:

- Large bank prime rate currently 4.95% (set March 12)
- CPI at +1.9% YoY January; was +1.8% YoY December; was +1.9% YoY November; was +2.0% YoY October
- Real GDP +0.3% YoY October; was +0.2% YoY September (rev up); was +0.2% YoY July; was +/- nil% June
- Real GDP +0.6% YoY Q4 (+2.6% nominal); was +0.5% YoY Q3 (rev down); was +0.5% Q2; was +0.4% Q1
- Real GDP per capita -0.4% Q3; was -0.1% Q2 (down 6 consecutive quarters)
- Wages +5.8% YoY December; was +4.1% YoY November; was +5.3% YoY October; was +5.2% YoY September
- Unemployment rate was 6.6% end of February; was 6.6% end of January; was 6.7% end of December; was 6.8% end of November
- Lost 20,000 permanent full time jobs and gained 21,000 part time jobs in February
- Household spending +2.4% in 2024

Other World:

- BoE bank rate cut 0.25% to 4.50% on February 6
- Next BoE rate decision March 20
- UK CPI +3.0% YoY January, was +3.5% YoY December; was +2.6% YoY November; was +2.3% YoY October
- Eurozone deposit facility rate cut 0.25% to 2.50% (set March 6)
- Next ECB rate decision April 17

- Eurozone inflation was 2.6% YoY February; was 2.8% YoY January; was 2.7% YoY December (rev up); was 2.3% YoY November
- France inflation +0.9% MoM February
- Australia lowered official cash rate to 4.10% (February 18)
- Reserve Bank of New Zealand official cash rate cut 0.50% to 3.75% (February 18)

Recent activities (since last report):

Activities with existing, new and potential investments in:

- Additional – Plains All American Pipeline [PAA 4.7 06/15/44] – face/coupon \$500K/4.70% to 06/15/44; price/yield \$84.230/6.10% to 06/15/44 [BBB S&P; Baa2 Moody; BBB Fitch; BBB Egan]
- Additional – Government National Mortgage [GNR 2025-5 HG] – "Ginny Mae" - face/coupon \$1MM/6.00% to 01/20/55; price/yield \$99.78125/6.02% to 12/20/26
- New – Kinder Trust [KNDR 2021-KIND A] – real estate loans across 37 states – face/coupon \$1.5M/5.385% to 8/15/38; price/yield \$99.1875/6.04% to 6/15/26 [Aaa Moody]
- Extension – Strategic Funding Source [STRFUN 9 3/8 02/28/30] – aka Kapitus - small and medium business loans and financing; face/coupon \$500K/9.375% to 02/28/30; price/yield \$100.000/9.56% to 2/28/30 [BBB+ Egan]
- New – Evergy Kansas Central [EVRG 4 1/8 03/01/42] – integrated electric utility in Kansas - face/coupon \$1.452M/4.125% to 3/1/42; price/yield \$85.607/5.433% to 3/1/42 [A S&P; A2 Moody; WD Fitch]
- Additional – Dominion Energy South (formerly South Carolina Electric and Gas – SCANA) [D 4.6 06/15/43] – generation, transmission, distribution and sale of electricity in SC – face/coupon \$1.5M/4.60% to 06/15/43; price/yield \$89.8920/5.48% to 6/15/43 [A S&P; A2 Moody; A+ Fitch]
- New possible in process – Two-Tiered Interest agency CMO bond – similar to an inverse floater – face/coupon \$2M/6.00% (as long as SOFR remains at 5.10% or lower); 5.7 year nominal average life; risk weighting is that of a Aaa/AAA bond; waiting for purchase and close
- Possible new in process – Missouri Prime Beef Packers LLC – possible \$1,828,000 for one year @7.25%-7.50% yield, 6 months guaranteed interest; awaiting credit memorandum and more information [rating would be CM1]
- New in process – Academia Medical Institute - office building in Westerville OH – nursing school - \$1,813,500 @ 7.50% (WSJ Prime + 0 adjustable with 7.50% floor) for 1 year with 6 months guaranteed interest, will close by end of March 2025

Meetings, webinars, attendances, continuing education:

- (Nothing relevant)

Monitor appointed in TD Bank \$3 billion anti-money-laundering settlement

Consulting firm Guidepost Solutions has been selected as the independent monitor to oversee TD Bank's remediation efforts after the Canadian bank pleaded guilty in October to charges that it failed to build proper anti-money-laundering systems.

The Justice Department and the Treasury Department's Financial Crimes Enforcement Network jointly picked Guidepost as the outside monitor, TD's U.S. head said during the bank's earnings call on Thursday (February 27), adding that it looks forward to working with them.

[Richard Vanderford, WSJ – February 28 2025]

The investment flow into the cannabis industry has slowed to a trickle, pressuring some private lenders that have become the primary source of its financing.

First, shoppers squeezed by inflation began ditching name-brand snacks and drinks in favor of lower-price store brands. But now, with costs for coffee, eggs and other basic grocery items surging, consumers are cutting out many cheaper items as well. That has TreeHouse Foods, one of the country's largest manufacturers of private brands, feeling the pinch.

The maker of cookies, crackers, coffee and other goods for retailers such as Walmart, Whole Foods, Trader Joe's and Target, gained ground in recent quarters as inflation pushed shoppers into cheaper food options. With sales growth now slowing significantly, TreeHouse is working to protect its margins by slashing costs and fine-tuning its list of products, anticipating that shoppers will remain stretched, at least for now.

"We don't have any strong indicators that consumers are going to be less stressed in the near term," said TreeHouse finance chief Patrick O'Donnell. "If that's not true and it turns around, I think doing the cost work benefits you either way."

[Jennifer Williams, WSJ – March 4 2025]

The Trade Deficit Is Not Made in America

For decades, American policymakers have been fed a simple story about trade: The United States runs persistent deficits because it doesn't save enough. If only Americans were more frugal and the federal government controlled its spending, the trade deficit would shrink, and manufacturing jobs would return.

This is the argument Maurice Obstfeld made in an essay for the Financial Times yesterday (March 4), dismissing President Donald Trump's latest tariffs as a misguided attempt to fix a problem that, in his view, can only be solved by cutting budget deficits and boosting national savings. But this standard economic narrative ignores one crucial fact: the U.S. trade deficit is not just a domestic issue—it is driven by foreign economic policies designed to suppress consumption abroad and flood the U.S. with excess savings.

Michael Pettis, a veteran China analyst, took to X Wednesday (March 5) and dismantled Obstfeld's argument by exposing its biggest blind spot: the assumption that only the U.S. has agency in global trade imbalances. In reality, China, Germany, Japan, and other surplus nations actively shape these imbalances through policies that suppress wages, limit domestic consumption, and push their excess savings into the global economy—where the United States, with its open capital markets, absorbs them.

The Real Cause of Trade Imbalances

Obstfeld argues that the U.S. runs a trade deficit simply because Americans spend more than they produce. But what he ignores is that foreign nations—especially China—deliberately engineer their economies to produce more than they consume. Beijing enforces high savings rates by suppressing wages, limiting household wealth, and directing cheap credit to state-owned enterprises rather than consumers. These excess savings don't stay in China. Instead, they flow outward, seeking a destination.

Where do they go? The United States, because America has the most open capital markets in the world. As Pettis explains, when China accumulates massive surpluses, they have to be absorbed somewhere—and that means an automatic increase in the U.S. trade deficit. The problem isn't that Americans are reckless spenders; it's that foreign governments are flooding the system with cheap capital, making deficits an inevitability.

The scale of the imbalance is staggering. The U.S. has run persistent trade deficits since the 1970s, and ended 2024 with a goods trade deficit of approximately \$1.2 trillion. The December 2024 trade deficit alone was \$98.43 billion. If this were simply about inadequate U.S. savings, we would have seen these deficits fluctuate significantly over the years. Instead, their persistence suggests something else at work—foreign mercantilist policies that rig the global system in their favor.

Why Tariffs Are a Necessary Response

If the U.S. trade deficit is being imposed by foreign intervention rather than American choices, then tariffs are not just an economic tool—they are a defensive measure. The Trump administration’s tariffs on China, Mexico, and Canada are part of a broader strategy to force surplus nations to stop distorting global trade and capital flows.

Obstfeld dismisses tariffs as ineffective, arguing that they won’t shrink the trade deficit or bring back manufacturing. But this assumes that tariffs operate in a vacuum. In reality, tariffs are one piece of a broader effort to counter foreign economic distortions. Without them, the U.S. is simply allowing itself to be the dumping ground for other countries’ surplus production.

Take China’s economy. Its massive trade surplus isn’t the result of natural free-market forces—it’s the direct result of Beijing’s industrial policies, state-controlled banking system, and currency interventions. The only way to change this is to make China feel the cost of its own policies. Tariffs increase that cost. They force China to reconsider whether its strategy of suppressing consumption and flooding the U.S. with cheap goods is sustainable.

Rebuilding American Economic Sovereignty

The core issue here isn’t just trade deficits—it’s America’s economic sovereignty. For decades, the U.S. has let foreign nations dictate its economic reality. We allowed China to become the world’s factory, gutting our industrial base. We accepted trade deficits as an unavoidable consequence of globalization. And we let foreign capital distort our financial system, fueling bubbles and debt-driven growth.

Trump’s tariffs challenge this status quo. They are a recognition that America cannot fix its economy without confronting the policies of surplus nations that have spent decades rigging the system in their favor. Obstfeld’s solution—some sort of intervention aimed at cutting U.S. spending and increasing savings—ignores the fact that America cannot out-save an economy like China’s, where savings rates are artificially inflated by government intervention. It would also involve far more economic intervention than simply addressing the trade imbalance head-on.

The real solution is to reshape global trade and capital flows so that the U.S. economy is no longer at the mercy of foreign mercantilism. As a first step, that means tariffs and the kind of conservative industrial policy of tax cuts and deregulation Trump advocated in his address to Congress on Tuesday (March 4). It means rejecting the idea that America’s economic fate is solely determined by domestic policy decisions. And it means recognizing that in a world where other nations play by different rules, America has every right to protect itself.

[John Carney and Alex Marlow, Breitbart Business Digest – March 5 2025]

Jack Daniel’s maker Brown Forman’s CEO Lawson Whiting said on Wednesday (March 5) Canadian provinces taking American liquor off store shelves was “worse than a tariff” and a “disproportionate response” to levies imposed by the Trump administration. Several Canadian provinces have taken U.S. liquor off store shelves as part of retaliatory measures against President Donald Trump’s tariffs.

“I mean, that’s worse than a tariff, because it’s literally taking your sales away, (and) completely removing our products from the shelves,” Whiting said on a post-earnings call.

Canada on Tuesday (March 4) also imposed 25 per cent tariffs on goods imported from the U.S., including wine, spirits, and beer.

Whiting, however, said that Canada accounted for only one per cent of their total sales and could withstand the hit. He added the company would watch out for what happens in Mexico, which according to its annual report, made up seven per cent of its 2024 sales.

Shares of the company were up about eight per cent after the liquor maker reaffirmed its annual forecasts which accounted for the impact of tariffs.

While Whiting warned of “continued uncertainty and headwinds in the external environment,” he said that he was confident of the company’s trajectory.

Brown-Forman has been reeling from a slowdown in demand so far this year, led by the U.S., Canada and Europe, which offset benefits from stronger sales in emerging markets such as Mexico and Poland. The company has undertaken cost-cutting measures, including workforce reduction. Analysts have said this is a response to a more challenging environment both for the company and the broader spirits industry.

Net sales fell three per cent from a year ago to US\$1.04 billion, compared with analysts’ estimate of US\$1.07 billion, according to data compiled by LSEG. For fiscal 2025, Brown-Forman expects net sales growth in the range of two per cent to four per cent.

[Savyata Mishra, Global News – March 5 2025]

Lawmakers grill Florida regulators about study on insurance ‘accounting tricks’

TALLAHASSEE — State regulators told lawmakers on Friday that a state report showing insurers losing money while their affiliates made billions “raised red flags” but was incomplete because it was never finished. During a three-hour hearing, Florida’s current and former insurance commissioners were grilled by Republicans and Democrats about why the report was left undone in 2022 and never given to the Legislature.

“I find as a legislator that that’s outrageous, that we’re getting something so antiquated and so full of flaws,” said Rep. Mike Caruso, R-Delray Beach.

The Times/Herald last month revealed the never-before-seen state report, which found that insurance companies funneled billions of dollars to affiliate companies while claiming to lose money between 2017 and 2019, when the state’s insurance crisis began. In response, House Speaker Daniel Perez, R-Miami, ordered a House committee to investigate whether insurers were using “accounting tricks” to hide profits.

The first-of-its-kind study was commissioned by former Insurance Commissioner David Altmaier in 2021, after hearing concerns about insurers’ use of affiliate companies.

Insurers create affiliates that charge the insurance company for basic services, such as handling claims and writing policies, at sometimes inflated rates — allowing them to extract profits beyond what state regulators would normally allow.

The state paid a consultant \$150,000 to analyze the relationships. The consultant gave the report to the state on April 1, 2022, according to emails. The results “certainly raised some red flags,” Altmaier told lawmakers.

“I think what we said was, There’s a lot of smoke here, and we need to make sure we go and see if there’s a fire burning or not,” Altmaier said. “That was the effort I thought was underway when I left the office.” He left the office in December 2022.

But the office never investigated further. Instead, the report was left in a “draft” form and never followed up. Lawmakers repeatedly asked how that could happen.

“Why did the investigation stop?” said Rep. Susan Valdés, R-Tampa. “Who made that decision to say, ‘This isn’t important enough?’”

“I would say nobody made that decision,” Altmaier said. “Candidly, when I was asked to come and speak here today, that’s the one question that I haven’t been able to come up with an answer to.”

Altmaier, who began consulting for insurers three months after leaving office, said he didn't recall telling his successor, Office of Insurance Regulation Commissioner Mike Yaworsky, about it. "Hindsight being 2020, if I could go back and do it all over again, maybe I would call him and said, 'Don't forget to finish that report,'" Altmaier said.

Yaworsky said it could have been dropped because regulators were understaffed and dealing with the height of the insurance crisis that year. Lawmakers met twice in emergency legislative sessions in 2022, after the report was produced, to pass reforms making it harder to sue insurance companies. Some lawmakers at the time questioned the role of affiliate companies in the insurance crisis.

The Times/Herald first requested the report under the state's public records law in November 2022. Yaworsky said he wasn't aware of the report until October 2024. That's when a lawyer for the Times/Herald demanded the state turn it over.

The office told the Times/Herald's lawyer that it did not exist, before providing the report's seven-page executive summary in December last year. Multiple lawmakers asked Yaworsky about why it took the office more than two years to turn over the records. He said he didn't know, but that he took "ownership" for the shortfall and that the office has since streamlined its responses to records requests.

Yaworsky and Altmaier said the report was never given to lawmakers because it wasn't complete. The report was produced by a consultant for \$150,000. The author determined that the insurers in the study, minus a couple of national outliers, showed a net loss of \$432 million, while their affiliate companies showed a net income of \$1.8 billion. The insurers also spent \$680 million on dividends to shareholders during the period. The result left some insurers financially weaker and potentially unable to pay claims, but able to justify bigger rate increases.

The author of the report concluded most of the arrangements between Florida-based insurance companies and their affiliates were not "fair and reasonable" under her understanding of state regulations.

Yaworsky said the report "was a good initiative by the office" to better understand the industry, but he disagreed with the author's methodology. "It doesn't mean the conclusions are wrong or incorrect," he said. It was also flawed, Yaworsky said, because 23% of insurance companies either did not respond to the office's request for information or provided limited data. The state hasn't renewed the analysis since, but Yaworsky said he would "happily" do it each year if legislators wanted it.

"I think we're all screaming for it," Caruso responded.

The House Insurance and Banking Subcommittee will continue to hold hearings, including potentially hearing from insurance company executives, said chairperson Brad Yeager, R-New Port Richey. "I won't be satisfied until we get to the actual truth and get answers on this," Yeager said.

Insurance companies' improper use of affiliates, some of which are referred to as "managing general agents," have been cited in numerous company insolvencies in the past. In 2013, the Office of Insurance Regulation fined Universal Property & Casualty Insurance Co. \$1.3 million in part because one of its affiliates made \$44 million in profit while Universal lost money.

"If you are a commissioner of insurance, and you don't have a concern about perverse incentives that can exist in holding company arrangements, MGAs (managing general agents) and affiliated transactions, then you shouldn't have the job," Yaworsky said. "It is constantly on my mind."

Since 2022, the office has pushed for more oversight of those affiliate companies, but lawmakers haven't granted some of the tools the office has requested. Yaworsky is again asking to define "fair and reasonable" services in state statute, which would allow him to hold companies accountable. But Yaworsky said none of the insolvencies in recent years have been due to affiliate relationships. He and Altmaier said excessive litigation, storms and rising costs were why companies went out of business.

Ultimately, Florida's one of the most volatile insurance markets, Yaworsky said, and agreements with affiliates is the business model companies have found to attract investors. "How many of you would like to invest that \$100 million into a Florida domestic property that you may never get back?" he asked.

Rep. Karen Gonzalez Pittman, R-Tampa, raised her hand.

"After reading the report about the MGAs (managing general agents), I'd want to invest."

[Lawrence Mower, Tampa Bay Times - March 14, 2025]

"The difference between stupidity and genius is genius has its limits."

- Albert Einstein

Thank you for your trust in me and allowing me the opportunity to be of service to the Society.

Fraternally and respectfully submitted,

John V. Tokarsky, Treasurer

March 14, 2025