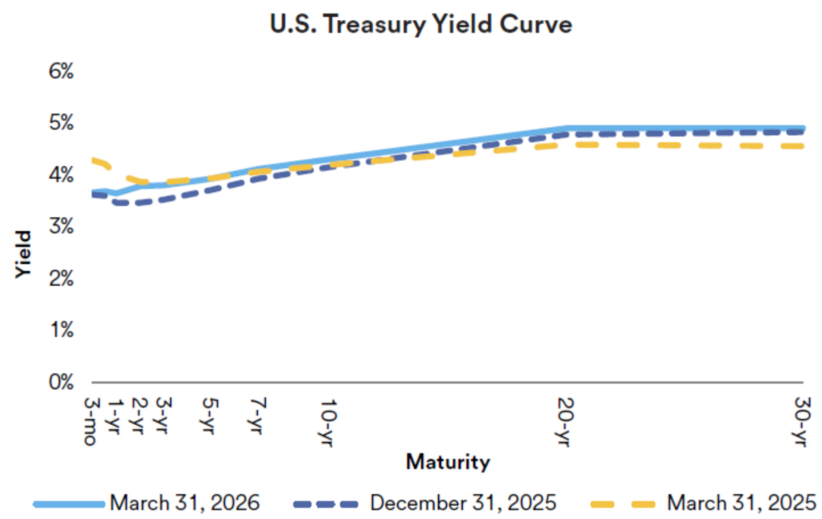
C/CAG Investment Portfolio Performance and Composition 1Q 2026
Report Created for Finance Committee May 28, 2026

Capital Markets Summary 1Q 2026

In the first quarter of 2026, the U.S. economy continued to show resilience despite rising geopolitical and inflationary pressures. Real GDP growth remained positive at approximately 0.5% annualized, supported by ongoing business investment and AI-driven capital spending. Labor market conditions softened modestly but remained healthy overall, with unemployment averaging 4.3% and payroll growth continuing at a steady pace. Inflation pressures reaccelerated during the quarter, largely due to higher energy costs, with Core CPI rising to 2.6% year-over-year and Headline CPI increasing to 3.3%. The Federal Reserve maintained a cautious, data-dependent stance, holding the federal funds rate in a target range of 3.50%–3.75%. Treasury yields remained elevated but moved higher through the quarter, with the 10-year Treasury yield ending at 4.32%. Equity markets pulled back during Q1 2026, though performance was volatile throughout the quarter. Markets began the year constructively but reversed course following rising geopolitical tensions in the Middle East.

US Treasury Yield Curve & US Treasury Yields Over Time

Throughout Q1 2026, U.S. Treasury yields moved higher across the curve as resilient economic data, elevated energy prices, and persistent inflation concerns led investors to scale back expectations for near-term Federal Reserve rate cuts. The 2-, 5-, and 10-year Treasury yields ended the quarter at 3.79%, 3.94%, and 4.32%, respectively, resulting in a meaningfully steeper yield curve compared to prior quarters. The normalization of the curve reflected improving growth expectations and a reassessment of the “higher-for-longer” rate environment rather than heightened recession fears. Rising yields created headwinds for duration-sensitive fixed income assets, with longer duration bond indices experiencing the greatest pressure; the Intercontinental Exchange Bank of America 5- and 10-year U.S. Treasury indices fell -0.01% and -0.11% for the quarter, respectively, while shorter-duration indices held up considerably better, with the 3-month and 2-year U.S. Treasury indices returning 0.85% and 0.23%. Nevertheless, elevated starting yields and stable credit fundamentals continue to provide attractive income opportunities for investors, particularly within high-quality credit and shorter-duration segments, where income remained a key component of total return even as price appreciation proved elusive amid the geopolitically driven rate environment.

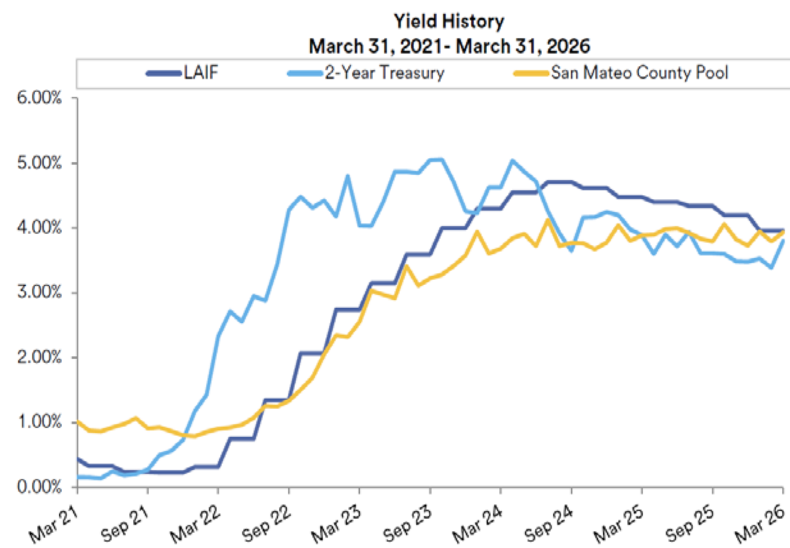


Source: PFM (Public Financial Management)

U.S. Treasury Yields

Maturity	Mar-26	Dec-25	Change over Quarter	Mar '25	Change over Year
3-Month	3.67%	3.63%	0.04%	4.29%	(0.62%)
1-Year	3.65%	3.47%	0.18%	4.02%	(0.37%)
2-Year	3.79%	3.47%	0.32%	3.88%	(0.09%)
5-Year	3.94%	3.73%	0.21%	3.95%	(0.01%)
10-Year	4.32%	4.17%	0.15%	4.21%	0.11%
30-Year	4.91%	4.84%	0.07%	4.57%	0.34%

Source: Bloomberg Finance L.P.



Source: PFM (Public Financial Management)

Portfolio Performance 1Q 2026

The C/CAG investment portfolio performed steadily during the first quarter of 2026, remaining in full compliance with the agency's investment policy and approved allocation strategy. The gradual increase in monthly yields under the LAIF fund reflects broader market conditions, including the Federal Reserve holding rates unchanged at 3.50%–3.75% amid rising geopolitical tensions and renewed inflation pressures stemming from the Middle East conflict. Under the County Investment Pool program, yields remained stable and continued to produce consistent returns supported by diversified investments in U.S. Treasuries, Federal Agencies, Certificates of Deposit, Corporate Notes, and government instruments.

The C/CAG investment portfolio returns for the first quarter of 2026 were stable, with LAIF's effective yield rising modestly throughout the quarter from 3.83% in January to 3.87% in February and 3.93% in March, averaging approximately 3.88% for the quarter. The County Pool Fund followed a similar pattern, beginning at 3.95% in January, dipping slightly to 3.80% in February, before recovering to 3.93% in March, averaging approximately 3.89% for the quarter. The total C/CAG portfolio asset allocation at the end of the quarter remained approximately 60% in LAIF and 40% in the County Pool Fund, which is within the stated investment policy allocation ranges. Overall, portfolio performance remained consistent with investment policy objectives, maintaining stable earnings while prioritizing safety and liquidity.

LAIF

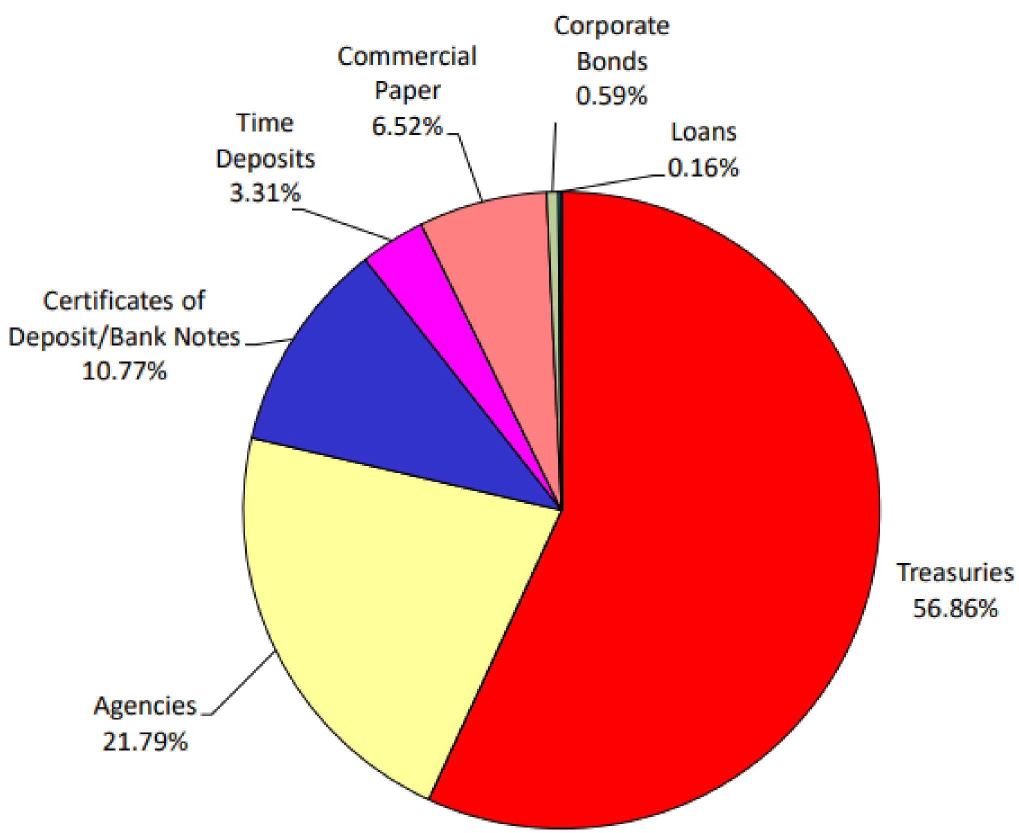
PMIA Average Monthly Effective Yields:

January 2026	3.826
February 2026	3.871
March 2026	3.931

PMIA Quarter to Date: 3.92%

PMIA Average Life: 261 days or 0.69 years

Portfolio Composition Pie Chart: Need Updated Pie Chart



Source: PMIA/LAIF Performance Report as of 4/22/2025

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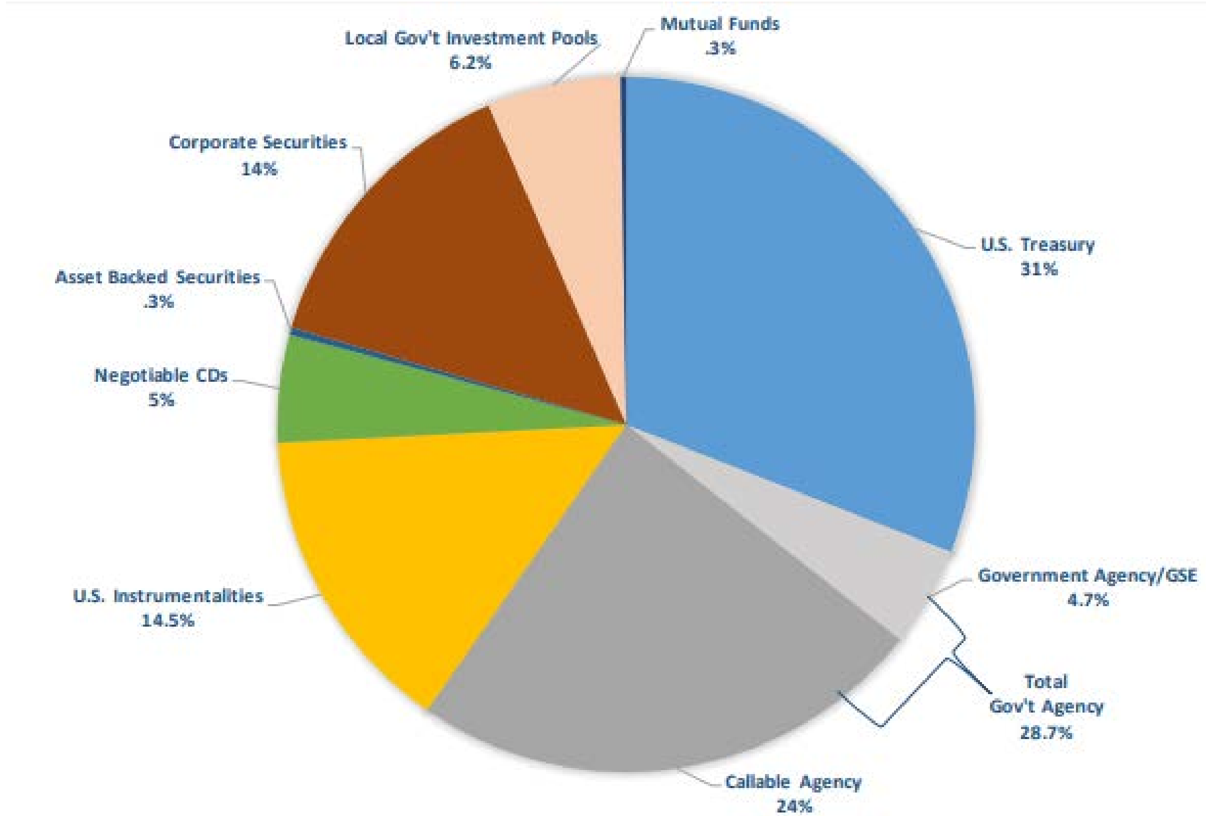
PMIA Average Monthly Effective Yields:

January 2026	3.945
February 2026	3.796
March 2026	3.933

PMIA Quarter to Date: 3.89%

PMIA Average Duration: 2.47 years

Portfolio Composition Pie Chart: Need Updated Pie Chart



Source: San Mateo County Investment Portfolio Compliance Report March 2026