



# Monthly Market Review

Spring has sprung: inch by inch, rates are moving higher; row by row, the world economy is strengthening; and the markets seem to have settled into a predictable pattern, all but ignoring the toxic global political environment.

## Economic Highlights

- Market volatility subsided even as interest rates marched higher. Economic data was generally favorable, but the political situation remains uncertain on trade, immigration and policies involving North Korea and the Iran nuclear deal.
- The initial estimate for 2018 first quarter U.S. Gross Domestic Product (GDP) indicated the economy grew at an annualized rate of 2.3%, down-shifting from the stronger growth of the prior three quarters.
- At their early May meeting, the Federal Open Market Committee (FOMC) left overnight rates unchanged at the current target range of 1.50 to 1.75%. In the accompanying statement, the Federal Reserve (Fed) acknowledged strong job gains, strong business investment and expressed a more confident tone regarding inflation's move towards the 2% target rate.
- On the inflation front, the core Personal Consumption Expenditures (PCE) price index moved higher, reaching 1.9% year-over-year in March. Investor expectations about inflation have followed suit as the 10-year Treasury Inflation Protected Securities (TIPS) breakeven, the embedded market expectation for inflation over the next 10 years, reached a four-year high.
- Although net job gains were below expectations for April, the unemployment rate fell to 3.9%, the lowest level since 2000. In another sign of the strength of the U.S. labor market, the weekly tally of initial claims for unemployment insurance reached the lowest level since 1969.

## Bond Markets

- U.S. Treasury yields rose during April as inflation expectations took center stage. Most notably, the curve steepened. The six-month Treasury note increased nine basis points (bps) to end April at 2.0%, while the five-year increased 24 bps to 2.8%. The 10-year Treasury briefly breached the psychologically important 3.0% level for the first time since 2014.
- As a result of higher yields, the majority of fixed-income indices with maturities greater than one year posted negative absolute returns in April. It was better to be shorter over the month, as shorter-duration portfolios outperformed their longer-tenored counterparts. The 10-year Constant Maturity Treasury (CMT) index returned -1.4% for the month, offsetting the prior months' return. The six-month Treasury index generated 0.16% of positive performance.
- Among the best performers for April was short- to intermediate-term corporate bonds, as credit spread retraction from prior widening outpaced the adverse impact of higher yields in general. The Investment Grade (IG) corporate sector and high-quality Asset-Backed Securities (ABS) benefited and produced attractive relative performance compared to most other fixed-income sectors.

## Equity Markets

- Following two months of volatility and back-to-back monthly declines, the S&P 500 Index (S&P) eked out a +0.38% return in April. Year-to-date, the benchmark domestic equity index closed April relatively unchanged (-0.38%) on the year.
- Equity market volatility and bond market volatility retreated, and the CBOE Volatility Index (VIX), ended the month at its five-year average.
- Overall, sector performance within the S&P was mixed with six of the 11 sectors posting positive returns. Consumer Staples, Industrials, and Telecom led declines, returning -4.32%, -2.79%, and -0.98%, respectively. Energy, Consumer Discretionary, and Utilities posted positive returns with 9.36%, 2.36%, and 2.10%, respectively.
- The U.S. Dollar (USD) strengthened in April, reversing a five-month trend of a weakening or unchanged USD. Despite the increased value of the dollar for the month, it ended April 8% below its 12-month high.

## PFM Outlook

- Expectations for additional Fed rate hikes this year and next, as well as rising inflation, continue to support our view that interest rates are likely to trend gradually higher over the next few months. We believe a modestly defensive duration bias is warranted to help insulate portfolio values in the face of rising rates. That view is tempered, however, by opportunities to reinvest in intermediate maturities at current yields, which are the highest in many years.
- Tight yield spreads in the Federal Agency sector remain intact. We continue to seek opportunities to reduce agency allocations in favor of alternatives, particularly supranationals.
- After yield spreads on corporate securities widened in February and March, we added to corporate allocations at higher yields and wider spreads. In April, yield spreads began to narrow, but corporates still offer good incremental yield. Our outlook is fundamentally favorable on corporates, but we are approaching the sector with some caution due to heightened volatility and market risk. We favor financials with strong capital over industrials, which have generally increased balance sheet leverage over the past several years.
- We expect near-term performance in the mortgage-backed securities (MBS) sector to remain under pressure as the pace of Fed balance sheet restructuring leads to an accelerated reduction in its MBS holdings. Additionally, seasonal supply of MBS is poised to increase as summer approaches, and higher interest rates will skew prepayments and durations longer.
- Short-term money market investors continue to benefit from the recent monetary policy tightening and higher overnight Fed Funds rates. The yield on a six-month Treasury Bill recently breached 2% for the first time since August 2008. High-quality Commercial Paper and negotiable Certificates of Deposit continue to offer significant incremental income potential relative to government alternatives.



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# Monthly Market Review

NEBRASKA  
LIQUID  
ASSET FUND

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**pfm** FUNDS

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# Monthly Market Review



MISSOURI SECURITIES INVESTMENT PROGRAM

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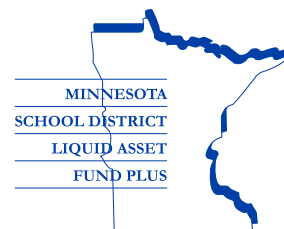
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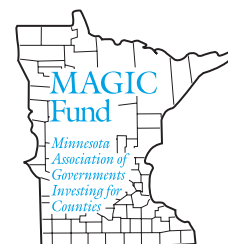
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