



Monthly Market Review

“Turning the corner...”

Economic Highlights

- The U.S. fight against COVID-19 has shown dramatic progress in contrast with soaring cases abroad, particularly in emerging economies. The dramatic downturn in new U.S. coronavirus cases came as the vaccination rate rose sharply. By early May more than 150 million Americans had received at least one dose of the vaccine. The Biden Administration has set two new goals for July 4: getting 70% of U.S. adults to receive at least one vaccine dose and having 160 million adults fully vaccinated.
- The first estimate of gross domestic product (GDP) for the first quarter showed the U.S. economy grew at an annualized 6.4% clip, fueled by strong consumer spending. Personal consumption, the biggest component of GDP, surged at an annualized rate of nearly 11%, the second-fastest pace since the 1960s. Pent-up consumer demand combined with the third round of household stimulus checks drove growth.
- At the April meeting of the Federal Open Market Committee, the Federal Reserve (Fed) kept its easy monetary policy in place, holding interest rates near zero and continuing \$120 billion per month in asset purchases. Fed Chair Jerome Powell acknowledged faster economic growth, though he remained cautiously optimistic about the future course. Powell reiterated the view that “base effects and [supply] bottlenecks” will likely drive up reported inflation in the coming months but expects the rise to be transitory. A prerequisite for any policy changes is for policymakers to see substantial further progress in the economy and a broad-based and inclusive recovery in the labor market.
- The employment report for April was a huge disappointment – the U.S. economy only added 266,000 jobs, significantly missing estimates of up to one million job gains. The unemployment rate ticked higher to 6.1% (from 6.0%), as there are still over eight million fewer employees in the workforce compared to pre-pandemic levels. The more comprehensive measure that includes underemployment (U-6) declined 0.3% to 10.4%.
- The U.S. housing market is strong and after a winter setback sales activity picked up, held back only by inventory shortages. On the other hand, after a stimulus-induced surge in March, retail sales were flat in April, pointing to a still uneven recovery.

Bond Markets

- The U.S. Treasury yield curve flattened modestly in April, as long-term yields fell by nine to 11 basis points (bps) while short-term yields remain anchored to the Fed’s near-zero rate policy. The yield on the benchmark 10-year Treasury fell to 1.63% after briefly rising in April to 1.74%, but is still 1% higher than its 2020 low, somewhat of a concession to the not-so-subtle inflation threat.
- Falling yields led to positive performance across all maturities, with longer tenors leading the pack. The 3-month T-Bill index was flat for the month, while the 5- and 10-year indices returned 0.54% and 1.19%, respectively.

- April’s investment-grade (IG) corporate issuance was \$97.8 billion, in line with more normal 2019 levels. Lower borrowing costs continue to support the issuance of new debt. Supply continues to easily find a home as investor demand remains robust, keeping spreads in a very low and narrow trading range.
- With the passage of the American Recovery Plan and work underway to agree on an infrastructure funding package, the U.S. Treasury faces a significant increase in its borrowing programs. Estimates are that there will be \$1.3 trillion borrowed over the second half of the fiscal year. Most of this will be in intermediate and long maturity obligations while the Treasury will pay down an estimated \$350 billion of short-term bills in the first half of this year. This will put further pressure upward on long-maturity yields and press money market rates lower.

Equity Markets

- U.S. equity markets advanced strongly in April, supported by solid economic data and strong corporate earnings reports. The S&P 500 gained 5.3%, the Dow Jones Industrial Average returned 2.8% and the Nasdaq climbed 5.4%.
- Global stocks rose as well, with the MSCI world index up 4.65% and the developed market index (excluding the U.S) up 2.94%. The U.S. Dollar Index (DXY) weakened.

PFM Strategy Recap

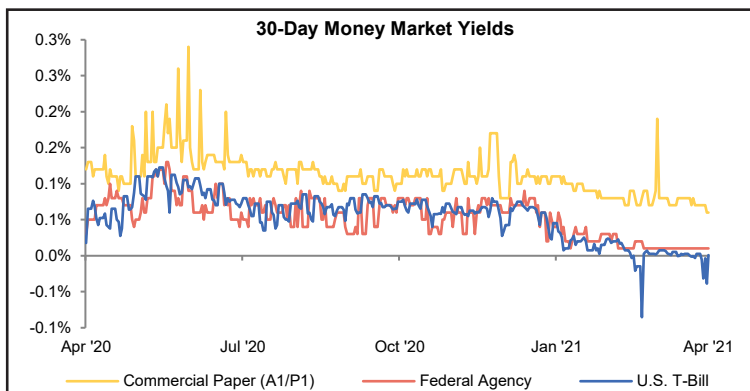
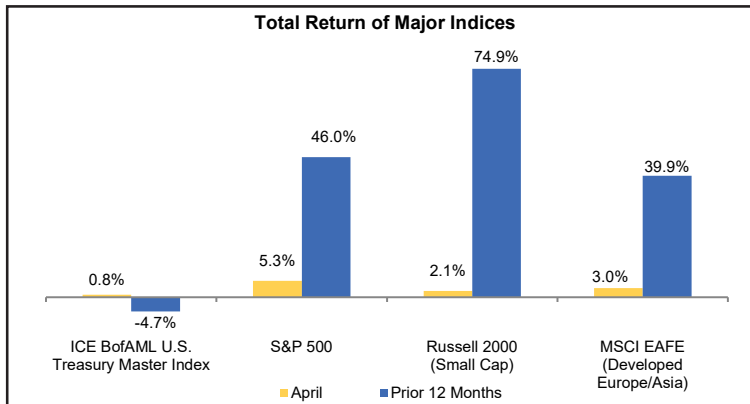
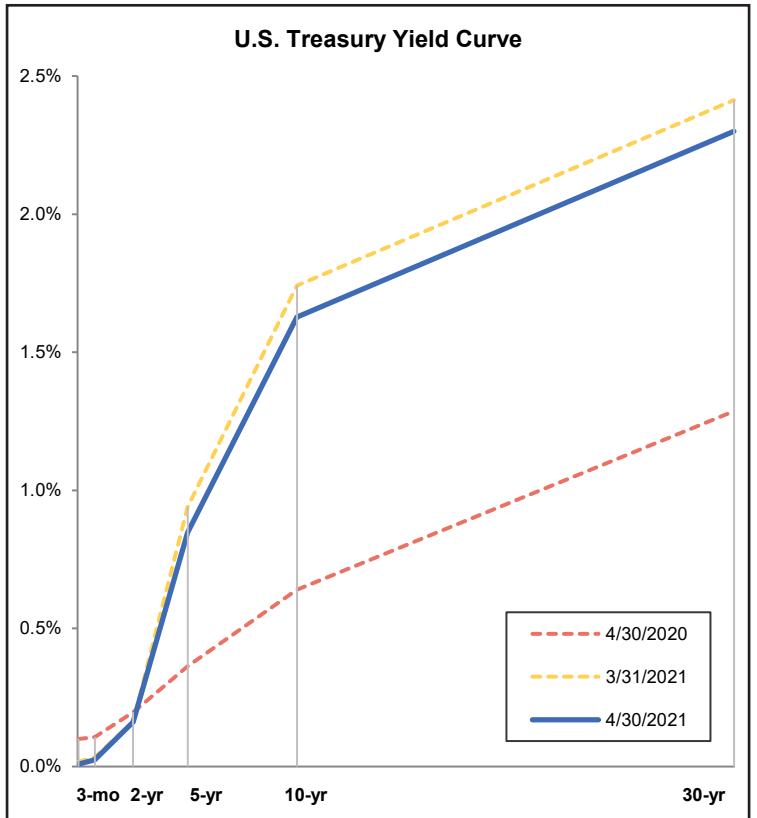
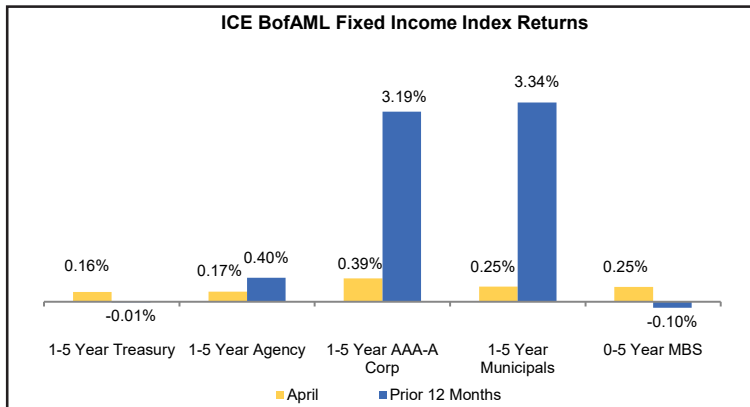
- Strategic opportunities are constrained by narrow spreads and low rates. The pace of the recovery is becoming more sustained, but inflation risks or at least the perception of rising inflation is rising as well. In this environment, we continue to recommend a somewhat defensive strategy by avoiding overweights to non-Treasury sectors and maintaining a neutral to slightly conservative duration stance.
- Federal agency yield spreads remained extraordinarily narrow, presenting some opportunities to swap to Treasuries or Supranationals but little opportunity to add new positions.
- IG corporate spreads are once again approaching record tight levels, given general optimism on the economic recovery. We recommend swapping from short-maturity positions to longer-duration new issues to maintain overall duration in the sector.
- With AAA-rated asset-backed securities spreads narrow and collateral performance in consumer sectors stronger than expected, opportunities to add to this sector are limited.
- The mortgage-backed security (MBS) sector remains expensive. Fed purchases have driven yield spreads lower amid elevated prepayments and MBS durations.
- Short-term Treasury bills and agency discount notes are now hugging a zero yield. Short-term credit spreads are a bit wide with the opportunity to add positions in 6-12 month corporate notes, commercial paper and bank CDs.

U.S. Treasury Yields				
Duration	Apr 30, 2020	Mar 31, 2021	Apr 30, 2021	Monthly Change
3-Month	0.10%	0.02%	0.01%	-0.01%
6-Month	0.11%	0.03%	0.02%	-0.01%
2-Year	0.20%	0.16%	0.16%	0.00%
5-Year	0.36%	0.94%	0.85%	-0.09%
10-Year	0.64%	1.74%	1.63%	-0.11%
30-Year	1.29%	2.41%	2.30%	-0.11%

Yields by Sector and Maturity as of April 30, 2021				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.01%	0.01%	0.14%	--
6-Month	0.02%	0.02%	0.16%	--
2-Year	0.16%	0.17%	0.29%	0.24%
5-Year	0.85%	0.87%	1.12%	0.58%
10-Year	1.63%	1.72%	2.23%	1.27%
30-Year	2.30%	2.19%	3.18%	1.82%

Spot Prices and Benchmark Rates				
Index	Apr 30, 2020	Mar 31, 2021	Apr 30, 2021	Monthly Change
1-Month LIBOR	0.33%	0.11%	0.11%	0.00%
3-Month LIBOR	0.56%	0.19%	0.18%	-0.01%
Effective Fed Funds Rate	0.05%	0.06%	0.05%	-0.01%
Fed Funds Target Rate	0.25%	0.25%	0.25%	0.00%
Gold (\$/oz)	\$1,694	\$1,714	\$1,768	\$54
Crude Oil (\$/Barrel)	\$18.84	\$59.16	\$63.58	\$4.42
U.S. Dollars per Euro	\$1.10	\$1.17	\$1.20	\$0.03

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	15-Apr	Mar	9.8%	5.8%
Consumer Confidence	27-Apr	Apr	121.7	113.0
GDP Annualized QoQ	29-Apr	1Q A	6.4%	6.7%
PCE Core Deflator YoY	30-Apr	Mar	1.8%	1.8%
ISM Manufacturing	3-May	Apr	60.7	65.0
Change in Nonfarm Payrolls	7-May	Apr	266k	1000k
Unemployment Rate	7-May	Apr	6.1%	5.8%



Source: Bloomberg. Data as of April 30, 2021, unless otherwise noted. The views expressed constitute the perspective of PFM Asset Management LLC at the time of distribution and are subject to change. The content is based on sources generally believed to be reliable and available to the public; however, PFM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. Investment advisory services are provided by PFM Asset Management LLC, which is registered with the SEC under the Investment Advisers Act of 1940. For more information regarding PFM's services or entities, please visit www.pfm.com.

