Monthly Market Review

Economic Highlights

- The recent hurricanes led to volatility in U.S. economic data, but historically weather-related effects are short-lived. Unemployment claims spiked to a two-year high. The labor market experienced a net decline of 33,000 jobs in September, the first negative reading since 2010. Employment in food service and drinking establishments were particularly affected. Retail fuel prices rose due to supply chain disruptions.
- Despite hurricane-induced job losses, the unemployment rate dropped to 4.2% in September, a new 16-year low, while average hourly earnings accelerated to a 2.9% year-over-year (YoY) growth rate. But, the impact of weather on the data may overstate the apparent strength.
- The final estimate of second quarter gross domestic product (GDP) showed the U.S. economy expanded at a healthy pace of 3.1%, but estimates for the third quarter are closer to the 2% trend.
- Inflation remained subdued as the core personal consumption expenditures (PCE) price index – the Federal Reserve's (Fed) preferred measure of inflation – rose only 1.3% YoY in August, which was short of the 2% target and the weakest reading since 2015.
- In more positive news, both the manufacturing and services sectors expanded in September, according to the Purchasing Managers' Index (PMI). Home prices and sales activity indicate a solid housing market, while general sentiment indicators confirm continued confidence.

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- We expect the distortions from the season's hurricanes to be further reflected in upcoming economic indicators, especially GDP growth for the third quarter. Home and auto sales may also exhibit some transitory weakness. However, we consider this a short-term interruption in the trend of steady and moderate long-term growth.
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Monthly Market Review

TexasTERM
Local Government Investment Pool

Economic Highlights

- The recent hurricanes led to volatility in U.S. economic data, but historically weather-related effects are short-lived. Unemployment claims spiked to a two-year high. The labor market experienced a net decline of 33,000 jobs in September, the first negative reading since 2010. Employment in food service and drinking establishments were particularly affected. Retail fuel prices rose due to supply chain disruptions.
- Despite hurricane-induced job losses, the unemployment rate dropped to 4.2% in September, a new 16-year low, while average hourly earnings accelerated to a 2.9% year-over-year (YoY) growth rate. But, the impact of weather on the data may overstate the apparent strength.
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Bond Markets

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NEW JERSEY
NJ/ARM
ASSET & REBATE MANAGEMENT PROGRAM

Monthly Market Review

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Monthly Market Review

PLGIT
Pennsylvania Local Government Investment Trust

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Monthly Market Review

Virginia State SNAP® Non-Arbitrage Program

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Monthly Market Review

NEBRASKA LIQUID ASSET FUND

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pfm FUNDS

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Monthly Market Review

Illinois Trust

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Monthly Market Review

MOSIP
Missouri Securities Investment Program

Economic Highlights

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MINNESOTA
SCHOOL DISTRICT
LIQUID ASSET
FUND PLUS

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Monthly Market Review

COLORADO STATEWIDE INVESTMENT PROGRAM

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- Federal Reserve Chair Janet Yellen's term expires early next year, creating uncertainty around future Fed leadership. Additionally, Vice Chair Stanley Fischer ended his term prematurely. Changes in the makeup of the Fed could alter the future direction of monetary policy, which could roil markets. Still, we expect a modest, gradual uptrend in interest rates to continue, and favor a duration-neutral strategy position for short and intermediate maturity portfolios and a modestly defensive position for longer-duration mandates.
- In the money market space, short-term credit instruments such as negotiable certificates of deposit (CDs) and commercial paper (CP) continue to offer attractive yields compared to similar-duration government securities, as their yields reflect increased likelihood of a December rate hike.

Monthly Market Review

NEW HAMPSHIRE Public Deposit Investment Pool

Economic Highlights

- The recent hurricanes led to volatility in U.S. economic data, but historically weather-related effects are short-lived. Unemployment claims spiked to a two-year high. The labor market experienced a net decline of 33,000 jobs in September, the first negative reading since 2010. Employment in food service and drinking establishments were particularly affected. Retail fuel prices rose due to supply chain disruptions.
- Despite hurricane-induced job losses, the unemployment rate dropped to 4.2% in September, a new 16-year low, while average hourly earnings accelerated to a 2.9% year-over-year (YoY) growth rate. But, the impact of weather on the data may overstate the apparent strength.
- The final estimate of second quarter gross domestic product (GDP) showed the U.S. economy expanded at a healthy pace of 3.1%, but estimates for the third quarter are closer to the 2% trend.
- Inflation remained subdued as the core personal consumption expenditures (PCE) price index – the Federal Reserve's (Fed) preferred measure of inflation – rose only 1.3% YoY in August, which was short of the 2% target and the weakest reading since 2015.
- In more positive news, both the manufacturing and services sectors expanded in September, according to the Purchasing Managers' Index (PMI). Home prices and sales activity indicate a solid housing market, while general sentiment indicators confirm continued confidence.

Bond Markets

- At the conclusion of its September meeting, the Federal Open Market Committee (FOMC) announced balance sheet tapering would begin in October. The pace of tapering will follow the schedule provided previously. The widely expected announcement elicited little market reaction. Committee members also provided guidance that seemed to favor a December rate hike.
- Interest rates rose across all maturities as the market responded to continued growth in the U.S. economy, the Fed's indication that more rate hikes are coming, and the potential economic boost from tax reform.
- The yield on two-year Treasury notes rose 16 basis points (bps) to 1.49%, its highest level since 2008. The yield on 10-year Treasury notes rose 21 bps to 2.33%, its steepest monthly increase of the year; but the current level is still short of peak yields in early 2017.
- Yield spreads on federal agency and corporate bonds narrowed during the month, buoyed by strong demand for yield on high grade investments. As a result, both sectors outperformed comparable-maturity Treasuries.
- Expected Fed balance sheet tapering, which will reduce the pace of FOMC reinvestment in mortgage-backed securities (MBS) is a negative for the sector.
- Asset-backed securities (ABS) yield spreads remain narrow, but the incremental yield of these securities led to modest out-performance vs. Treasuries.

Equity Markets

- U.S. stocks extended their bull run in September, shrugging off geopolitical risks lurking in the background. Major U.S. equity indices posted their eighth straight quarter of gains, with the S&P 500 Index (S&P 500) logging its 39th record high this year.
- Sector performance within the S&P 500 was strong with eight of 11 sectors posting returns in the black. Energy led the way rising 9.9% due in large part to increasing oil prices. Despite the strong month, Energy remains the worst performing sector for the year. Utilities finished as the worst performing sector in September, falling 2.7%.
- After six months of declines, the U.S. dollar rose sharply in September, supported by higher interest rates and prospects of significant tax reform. Despite the strength of the greenback, most major international equity indices increased over the month, the exceptions being markets in China and Taiwan.

PFM Outlook

- We expect the distortions from the season's hurricanes to be further reflected in upcoming economic indicators, especially GDP growth for the third quarter. Home and auto sales may also exhibit some transitory weakness. However, we consider this a short-term interruption in the trend of steady and moderate long-term growth.
- Elevated demand and limited supply of high-quality fixed income bonds will likely keep yield spreads on agencies and corporates narrow. We continue to recommend credit securities given stable fundamentals, but are being selective with regard to issuer- and industry-specific opportunities in the sector as we seek to capture incremental yield.
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