



Monthly Market Review

“Have you heard? Inversion’s the word!”

Economic Highlights

- At the end of March all eyes turned to the seven-day stint when the yield on a 3-Month U.S. Treasury bill exceeded that of a 10-Year U.S. Treasury note. This yield curve inversion often precedes a recession. Despite this warning sign, other measures of market and economic conditions – such as credit spreads and jobless claims – do not portend a recession in the near term.
- As expected, the Federal Reserve (Fed or FOMC) left the federal funds rate unchanged in March at its current target range of 2.25% to 2.50%. Chairman Powell confirmed the Fed’s intent to be patient and “on hold” while assessing global economic and financial developments and inflation to determine what future adjustments to short-term rates – up or down – might be warranted.
- The final estimate of U.S. Gross Domestic Product (GDP) showed that growth moderated in the fourth quarter of 2018. The economy expanded at 2.2%, decelerating from 4.2% and 3.4% in the prior two quarters. The biggest headwinds to U.S. growth are from abroad, as vulnerabilities remain in the Eurozone, China, and Japan. Estimates for 2019 growth are in the 2% to 2.5% range, implying slower but steady expansion relative to 2018.
- The March U.S. jobs report showed non-farm payrolls rose by 196,000, rebounding from February’s lackluster 33,000 increase. The unemployment rate remained near its multi-decade low at 3.8%. Wage growth slowed a bit.
- U.S. Manufacturing and Consumer Confidence gauges remain positive, but are off their late-2018 highs. While consumer sentiment remains high, the difference between future and current assessments of economic conditions indicates consumers have become less optimistic about the future.
- After weakening for most of 2018, several measures of the housing market have rebounded. Boosted by lower mortgage rates and slowing home price appreciation, new and existing home sales spiked month-over-month by 4.9% and 11.8%, respectively.

Bond Markets

- U.S. Treasury yields rallied across the curve over the month, with maturities beyond one year declining 20 to 30 basis points (0.20% to 0.30%). The result was an even flatter yield curve.
- As a result, returns on longer duration indices dominated their shorter-term counterparts. For example, the 1-year and 2-year constant maturity U.S. Treasury indices returned 0.35% and 0.62%, respectively, while, the 5-Year and 10-Year indices generated 1.49% and 2.84% total return for the month.

- The inversion of the Treasury yield curve, albeit brief, did not change positive investor sentiment. Historically, this inverted relationship has foreshadowed recessions, with only one false positive in the past 45 years. But this event was brief, and other confirming signals such as stock market prices and credit market conditions suggest that a downturn is not imminent.

Municipal Bond Market

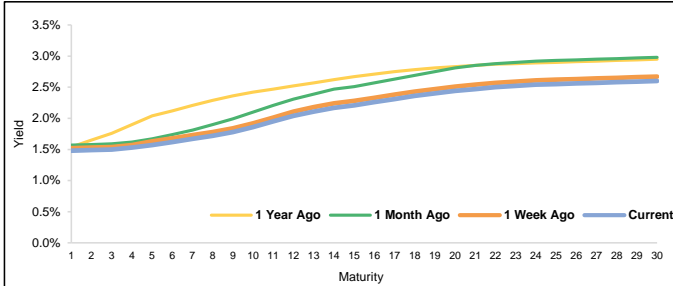
- Municipal new issuance was relatively unchanged in March, increasing slightly by 0.1% to \$26.12 billion from \$26.08 billion the same month last year. Year-to-date municipal new issuance is up 17.3% to \$76.9 billion for 2019 from \$65.6 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- March experienced positive bond flows throughout the month and ended with net inflows totaling \$8.8 billion, following February’s net inflows of \$10.9 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced lower rates across the yield curve in March. Both the one-year and three-year rate decreased 9 bps to 1.48% and 1.50%, respectively. The five-year rate fell 10 bps to 1.57%, and the 10-year rate declined 24 bps to 1.86%. On the long end, the 30-year rate dropped 38 bps to 2.60%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread fell by 8 bps to 36 bps while the Double-A GO Index credit spread dropped 4 bps to 12 bps, according to TM3 data.
- In March, Municipal-to-Treasury ratios increased across the front end of the yield curve and decreased on the long end. The two-year ratio increased to 65.7% from 62.7% in February, and the five-year ratio rose to 70.3% from 66.3%. The intermediate-term ratio moved up to 72.3% from 69.0%, while the 10-year ratio increased to 77.3% from 77.2%. The 30-year ratio declined to 92.4% from 96.4%, according to TM3 data.
- The Municipal curve flattened in March with the AAA MMD 2-year/10-year slope falling to 37 bps from 52 bps in February, and the AAA MMD 2-year/30-year slope decreased to 111 bps from February’s 140 bps.

Spot Rates				
	Current 3/29/2019	1 Week Ago 3/22/2019	1 Month Ago 2/28/2019	1 Year Ago 3/29/2018
2-Year	1.49	1.53	1.58	1.65
3-Year	1.50	1.54	1.59	1.76
5-Year	1.57	1.63	1.67	2.04
7-Year	1.67	1.73	1.81	2.21
10-Year	1.86	1.92	2.10	2.42
30-Year	2.60	2.67	2.98	2.95

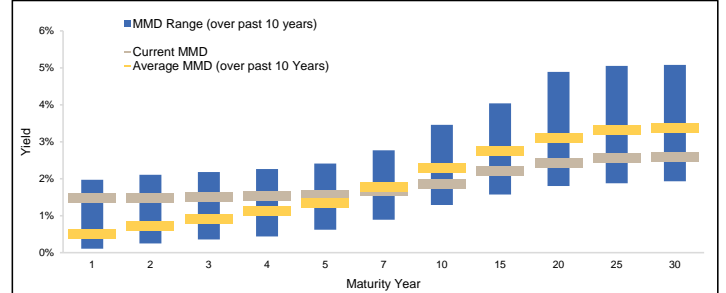
Change in Spot Rate (basis points)			
	1 Week Ago 3/22/2019	1 Month Ago 2/28/2019	1 Year Ago 3/29/2018
2-Year	-4	-9	-16
3-Year	-4	-9	-26
5-Year	-6	-10	-47
7-Year	-6	-14	-54
10-Year	-6	-24	-56
30-Year	-7	-38	-35

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.49%	2.26%	1.56
3-Year	1.50%	2.21%	1.55
5-Year	1.57%	2.23%	1.61
7-Year	1.67%	2.31%	1.70
10-Year	1.86%	2.41%	1.84
30-Year	2.60%	2.82%	2.18

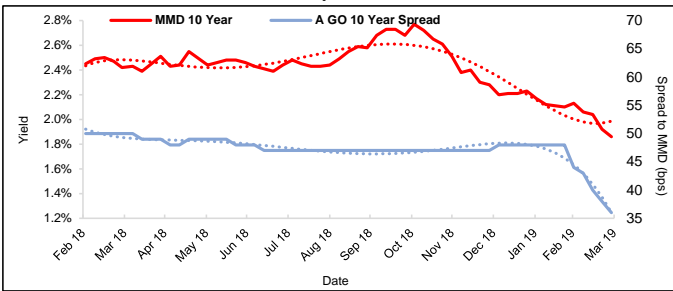
MMD AAA GO Curve



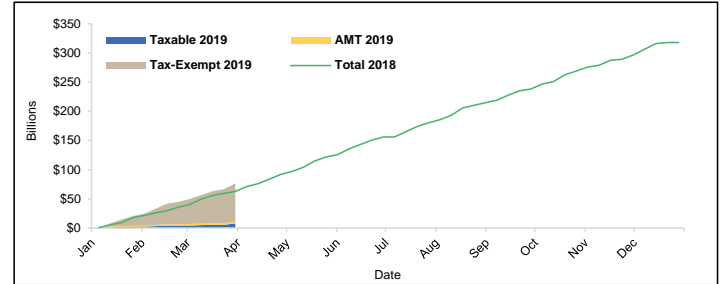
MMD Rates Over Time



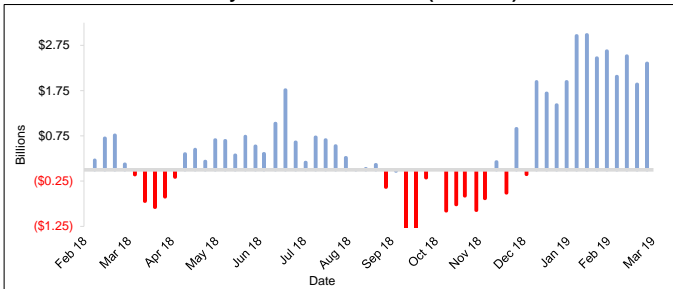
Rate and Spread Movement



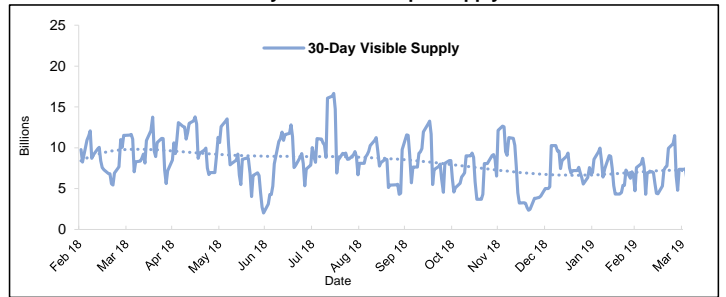
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
04/08/2019	10:00 AM	Cap Goods Orders Nondef Ex Air	04/15/2019	08:30 AM	Empire Manufacturing	04/19/2019	08:30 AM	Housing Starts MoM
04/08/2019	10:00 AM	Cap Goods Ship Nondef Ex Air	04/15/2019	04:00 PM	Net Long-term TIC Flows	04/22/2019	08:30 AM	Chicago Fed Nat Activity Index
04/09/2019	06:00 AM	NFIB Small Business Optimism	04/15/2019	04:00 PM	Total Net TIC Flows	04/22/2019	10:00 AM	Existing Home Sales
04/09/2019	10:00 AM	JOLTS Job Openings	04/16/2019	09:15 AM	Industrial Production MoM	04/22/2019	10:00 AM	Existing Home Sales MoM
04/10/2019	07:00 AM	MBA Mortgage Applications	04/16/2019	09:15 AM	Manufacturing (SIC) Production	04/23/2019	09:00 AM	FHFA House Price Index MoM
04/10/2019	08:30 AM	CPI MoM	04/16/2019	09:15 AM	Capacity Utilization	04/23/2019	10:00 AM	Richmond Fed Manufact. Index
04/10/2019	08:30 AM	CPI Ex Food and Energy MoM	04/17/2019	07:00 AM	MBA Mortgage Applications	04/23/2019	10:00 AM	New Home Sales
04/11/2019	08:30 AM	PPI Final Demand MoM	04/17/2019	08:30 AM	Trade Balance	04/24/2019	07:00 AM	MBA Mortgage Applications
04/11/2019	02:00 PM	PPI Ex Food and Energy MoM	04/17/2019	10:00 AM	Wholesale Inventories MoM	04/25/2019	08:30 AM	Initial Jobless Claims
04/11/2019	08:30 AM	PPI Ex Food, Energy, Trade MoM	04/17/2019	10:00 AM	Wholesale Trade Sales MoM	04/25/2019	11:00 AM	Kansas City Fed Manf. Activity
04/11/2019	08:30 AM	PPI Final Demand YoY	04/17/2019	02:00 PM	US Fed. Reserve Releases Beige Book	04/26/2019	08:30 AM	GDP Annualized QoQ
04/12/2019	10:00 AM	U. of Mich. Current Conditions	04/18/2019	08:30 AM	Retail Sales Advance MoM	04/26/2019	08:30 AM	Personal Consumption
04/12/2019	10:00 AM	U. of Mich. Expectations	04/18/2019	10:00 AM	Leading Index	04/29/2019	08:30 AM	Personal Income
04/12/2019	10:00 AM	U. of Mich. 1 Yr Inflation	04/18/2019	10:00 AM	Business Inventories	04/29/2019	08:30 AM	Personal Spending
04/12/2019	10:00 AM	U. of Mich. 5-10 Yr Inflation	04/19/2019	08:30 AM	Housing Starts	04/30/2019	09:45 AM	MNI Chicago PMI

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of March 31, 2019.

The views expressed constitute the perspective of PFM's financial advisory business 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. Financial advisory services are provided by PFM Financial Advisors LLC and Public Financial Management, Inc. Both are registered municipal advisors with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) under the Dodd-Frank Act of 2010. For more information regarding PFM's services or entities, please visit www.pfm.com.

