



Monthly Market Review

Stay home, stay safe.

Economic Highlights

- Although the U.S. economy entered the year on a strong footing, that deteriorated quickly as the COVID-19 pandemic took hold across the globe. This created a multipronged crisis: (1) a global health crisis, (2) a virtual economic shutdown in the U.S. and elsewhere, and (3) sudden and extreme volatility in the financial markets.
- Businesses closed their doors and governors issued statewide “stay at home” orders to residents to limit the spread of the virus. Despite these measures, the caseload and death count continued to grow. By month-end, the U.S. had the highest number of cases in the world.
- Economists’ forecasts for the second quarter U.S. gross domestic product (GDP) point to a deep recession, perhaps as severe as -40% on an annualized rate basis.
- The Federal Reserve (Fed) responded aggressively by cutting rates at two emergency meetings to a target range of 0% to 0.25%, initiating unlimited bond buying (quantitative easing) of various security types and rolling out an “alphabet soup” of market support programs totaling \$2.3 trillion, some from the 2008-2009 financial crisis and some new, to cushion the potential blow on financial markets.
- The U.S. Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. This \$2 trillion stimulus package provides loans and grants to individuals, small and large businesses, state and local governments, and the healthcare industry. In addition, the Treasury delayed most taxes for three months.
- The immediate impact of the pandemic on global economies made typical economic indicators, most of which are backward-looking, essentially irrelevant.
- U.S. jobless claims soared to record levels, with more than 16 million new unemployment claims in the last two weeks of March and first week of April. The implied unemployment rate was likely near 14% by early April.
- The Markit manufacturing PMI survey fell to 48.5 in March, the lowest reading since the financial crisis and an indication of an economy in contraction. The services PMI survey fared worse, posting a record decline to 39.8.

Bond Markets

- U.S. Treasury yields plunged in the wake of the Fed’s rate cuts and a broad flight-to-quality. Short-term yields settled near 0% and long-term rates fell to record lows with the 10-year Treasury well below 1%. As a result of the entire curve declining, longer duration bonds outperformed their short-term counterparts by notable margins.

- At the same time, yield spreads on all securities widened sharply, causing corporate, municipal and securitized sectors to far underperform Treasuries. Corporate and asset-backed security (ABS) saw their widest spreads since the 2008-2009 financial crisis.

Municipal Bond Market

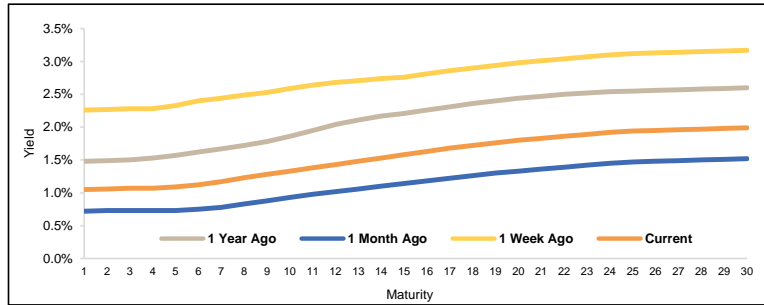
- Fears over the growing economic impact of the coronavirus pandemic caused intense volatility and record-breaking sell-offs in the municipal bond market. For two consecutive weeks in March, municipal bond funds experienced unprecedented net outflows as investors sought safety in cash.
- The Investment Company Institute (ICI) reported net outflows totaling \$44.0 billion in March, following February’s net inflows of \$10.2 billion.
- Investors’ flight from municipal bond funds was accompanied by a spike in interest rates for borrowers. The Municipal Market Data (MMD) Index experienced a jump in rates, with the 1-year rate increasing 33 basis points (bps) to 1.05% and 3-year rate surging 34 bps to 1.07%. Meanwhile, the 5-year rate rose 36 bps to 1.09%. On the long-end, the 10-year rate increased 40 bps to 1.24% and the 30-year rate jumped 47 bps to 1.99%, according to Municipal Market Monitor (TM3) data.
- Municipal new issuance decreased in March by 37.4% to \$17.5 billion from \$27.9 billion the same month last year. Year-to-date municipal new issuance is up 13.7% to \$90.3 billion for 2020 from \$79.4 billion during the same period last year, according to the TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread and the Double-A GO Index credit spread went unchanged at 29 bps and 13 bps, respectively, according to TM3 data.
- Municipal-to-Treasury ratios skyrocketed in March, reaching levels well beyond those of the Great Recession. The 2-year ratio increased to 481.8% from 83.0% in February, and the 5-year ratio jumped to 297.0% from 80.3%. The intermediate-term ratio grew to 213.5% from 75.1%, while the 10-year ratio rose to 196.5% from 81.6% in February. The 30-year ratio increased to 150.2% from 92.1%, according to TM3 data.
- The Municipal curve steepened in March with the AAA MMD 2- through 10-year slope rising to 27 bps, and the slope between the AAA MMD 2- through 30-year increasing to 93 bps from February’s 79 bps.

Spot Rates				
Term	Current 3/31/2020	1 Week Ago 3/24/2020	1 Month Ago 2/28/2020	1 Year Ago 3/29/2019
2-Year	1.06	2.27	0.73	1.49
3-Year	1.07	2.28	0.73	1.50
5-Year	1.09	2.33	0.73	1.57
7-Year	1.17	2.44	0.78	1.67
10-Year	1.33	2.59	0.93	1.86
30-Year	1.99	3.17	1.52	2.60

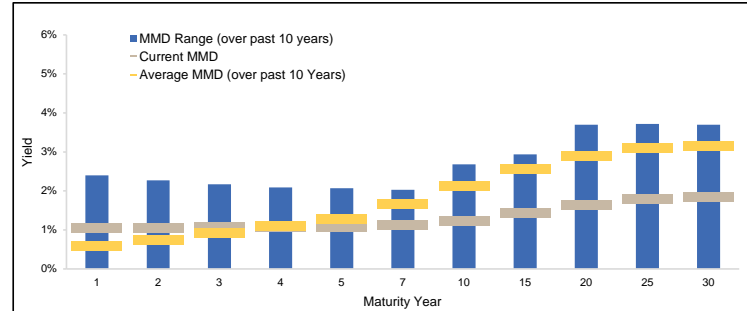
Change in Spot Rate (basis points)			
	1 Week Ago 3/24/2020	1 Month Ago 2/28/2020	1 Year Ago 3/29/2019
2-Year	-121	33	-43
3-Year	-121	34	-43
5-Year	-124	36	-48
7-Year	-127	39	-50
10-Year	-126	40	-53
30-Year	-118	47	-61

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.06%	0.25%	0.41
3-Year	1.07%	0.30%	0.40
5-Year	1.09%	0.38%	0.47
7-Year	1.17%	0.54%	0.54
10-Year	1.33%	0.67%	0.62
30-Year	1.99%	1.32%	0.77

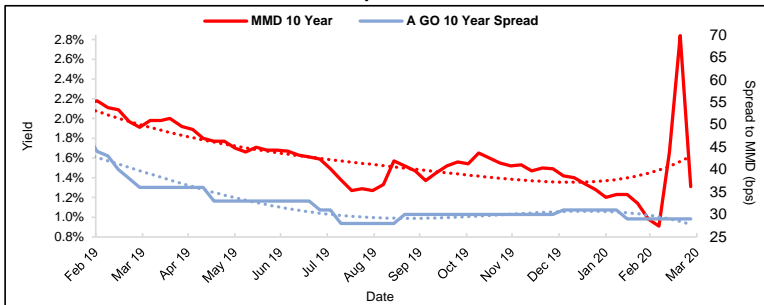
MMD AAA GO Curve



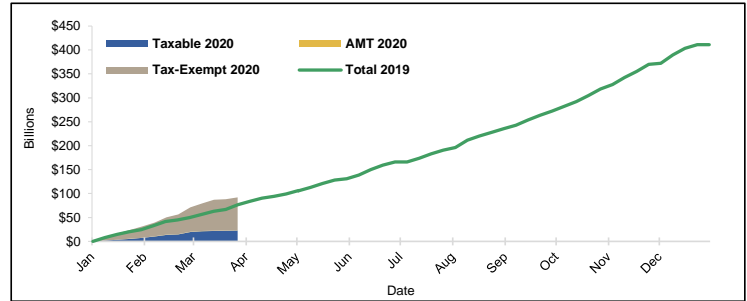
MMD Rates Over Time



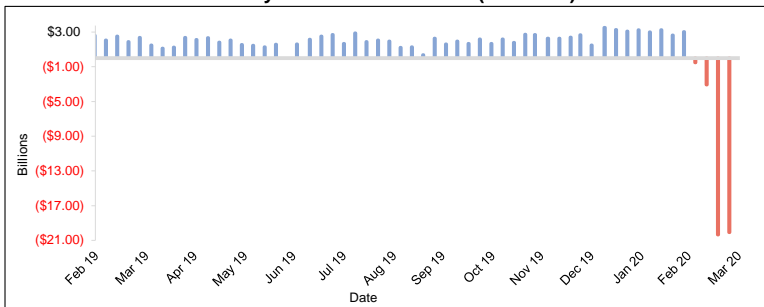
Rate and Spread Movement



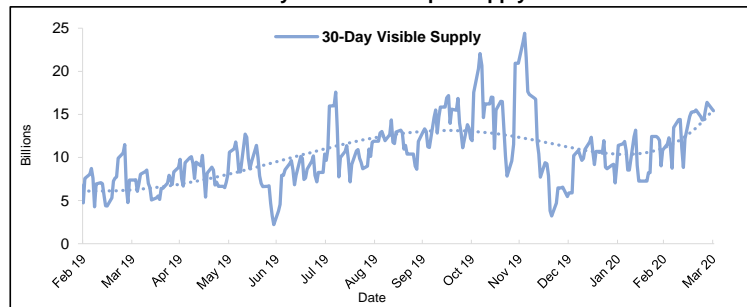
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
04/08/2020	09:45 AM	Bloomberg Consumer Comfort	04/15/2020	04:00 PM	Total Net TIC Flows	04/24/2020	10:00 AM	U. of Mich. 1 Yr Inflation
04/08/2020	02:00 PM	FOMC Meeting Minutes	04/16/2020	08:30 AM	Building Permits	04/24/2020	10:00 AM	U. of Mich. 5-10 Yr Inflation
04/09/2020	08:30 AM	PPI Final Demand MoM	04/16/2020	08:30 AM	Building Permits MoM	04/27/2020	10:00 AM	Revisions: Retail Trade
04/09/2020	08:30 AM	PPI Ex Food and Energy MoM	04/16/2020	08:30 AM	Housing Starts	04/28/2020	08:30 AM	Wholesale Inventories MoM
04/09/2020	08:30 AM	PPI Ex Food, Energy, Trade MoM	04/16/2020	08:30 AM	Philadelphia Fed Business Outlook	04/28/2020	09:00 AM	S&P CoreLogic CS US HPI YoY NSA
04/10/2020	08:30 AM	CPI MoM	04/17/2020	10:00 AM	Leading Index	04/28/2020	09:00 AM	S&P CoreLogic CS US HPI NSA Index
04/10/2020	08:30 AM	CPI Ex Food and Energy MoM	04/20/2020	08:30 AM	Chicago Fed Nat Activity Index	04/28/2020	10:00 AM	Conf. Board Consumer Confidence
04/10/2020	08:30 AM	CPI YoY	04/21/2020	10:00 AM	Existing Home Sales	04/29/2020	08:30 AM	GDP Annualized QoQ
04/10/2020	08:30 AM	CPI Ex Food and Energy YoY	04/23/2020	08:30 AM	Initial Jobless Claims	04/29/2020	10:00 AM	Pending Home Sales MoM
04/13/2020	09:00 AM	Bloomberg April United States Economic Survey	04/23/2020	08:30 AM	Continuing Claims	04/29/2020	02:00 PM	FOMC Rate Decision (Lower Bound)
04/14/2020	06:00 AM	NFIB Small Business Optimism	04/23/2020	09:45 AM	Bloomberg Economic Expectations	04/30/2020	08:30 AM	Personal Income
04/14/2020	08:30 AM	Import Price Index MoM	04/23/2020	09:45 AM	Bloomberg Consumer Comfort	04/30/2020	08:30 AM	Personal Spending
04/14/2020	08:30 AM	Import Price Index ex Petroleum MoM	04/23/2020	11:00 AM	Kansas City Fed Manf. Activity	04/30/2020	08:30 AM	Real Personal Spending
04/15/2020	08:30 AM	Retail Sales Advance MoM	04/24/2020	08:30 AM	Durable Goods Orders	04/30/2020	09:45 AM	MNI Chicago PMI
04/15/2020	08:30 AM	Retail Sales Ex Auto MoM	04/24/2020	08:30 AM	Durables Ex Transportation	04/30/2020	09:45 AM	Bloomberg Consumer Comfort

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of March 31, 2020.

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