



Monthly Market Review

It could be that the Trump tariff strategy is really designed to pressure the Federal Reserve (Fed) to lower interest rates. If so, rates below 1% are not out of the question.

Economic Highlights

- The trade war rolls on. Amidst on-again, off-again U.S.-China tariff spats and the resultant spikes in market volatility, investors have to digest a new Fed monetary policy outlook and reduced global growth prospects. While the domestic economy savors the tenth year of this epic expansion, it's the headwinds abroad that remain the most imminent detractors.
 - The advance release of second quarter U.S. gross domestic product (GDP) indicated the U.S. economy grew at 2.1%, trailing the 3.1% growth from the prior quarter, but outpacing consensus expectations of 1.8%. Growth was propelled by a jump in personal consumption to 4.3%, an increase from the prior quarter of 1.1% and the largest quarterly consumption figure since December 2017. On the downside, fixed investment posted its first negative contribution to GDP since the fourth quarter of 2015, a development worth monitoring as sustained periods of negative fixed investment typically precede economic downturns.
 - At the long-awaited July 2019 Fed meeting, the committee (as widely anticipated) cut the overnight fed funds target rate by 25 basis points (bps) to a new range of 2.00% to 2.25%. This marked the first Fed rate cut since December 2008. Fed Chair Jerome Powell had set the stage for preemptive monetary policy to stoke growth and noted the cut was "in light of the implications of global developments for the economic outlook as well as muted inflation pressures." Despite the cut, the balance of the Fed's post-meeting commentary leaned hawkish, led by the dissenting votes of two Fed members (preferring no change).
 - Inflation remains muted. The Consumer Price Index (CPI) indicates inflation near 2%, but the Fed's preferred gauge, the Personal Consumption Expenditure (PCE) Index, grew at 1.6% over the year through June, notably below the 2% target. Inflation remains the focus of future Fed policy. Stay tuned.
 - The U.S. labor market is a tailwind to the economy. The July jobs report indicated the economy generated 164,000 jobs, in line with expectations of 165,000. The unemployment rate remained unchanged at 3.7%, near the 50-year low, and the labor force participation rate ticked higher to 63.0%.
- As a result, intermediate-term Treasury indices generated negative total returns for the month, while very short- and longer-term indices were positive. For example, the 3-month and 30-year constant maturity U.S. Treasury Index returned 0.18% and 0.21%, respectively. Meanwhile, the 2-year, 5-year, and 10-year indices generated total returns of -0.14%, -0.26%, and -0.01%, respectively, for the month.
 - The trend of lower yields resumed in early August with Treasury rates rallying significantly and more than offsetting the increases in July.
 - Spread sectors (including investment-grade credit, AAA-rated asset-backed securities, and mortgage-related sectors) generated positive excess returns (that is, returns higher than those of comparable Treasuries) for the month, benefiting well-diversified portfolios.

Municipal Bond Market

Bond Markets

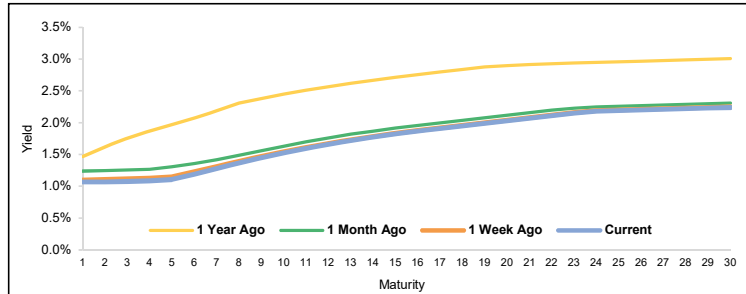
- After months of yield declines across all maturities, yields on intermediate maturities (one-10 years) rose modestly while yields of long and very short maturities declined.
- Municipal new issuance increased in July by 0.8% to \$28.2 billion from \$28.0 billion the same month last year. Year-to-date municipal new issuance is up 3.1% to \$199.7 billion for 2019 from \$193.7 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
 - July experienced positive bond flows throughout the month and ended with net inflows totaling \$10.49 billion, following June's net inflows of \$6.99 billion, according to Investment Company Institute (ICI) data.
 - The Municipal Market Data (MMD) Index saw declining rates across the yield curve in July. The 1-year rate dropped 17 bps to 1.07%, while the 3-year rate dropped 18 bps to 1.08%. The 5-year rate declined 20 bps to 1.11%, while the 10-year rate decreased 11 bps to 1.52%. On the long end, the 30-year rate dropped 7 bps to 2.24%, according to TM3 data.
 - The 10-year MMD Single-A General Obligation (GO) Index credit spread decreased by 2 bps to 31 bps and the Double-A GO Index credit spread remained unchanged at 12 bps, according to TM3 data.
 - In July, Municipal-to-Treasury ratios experienced declining rates across the yield curve. The 2-year ratio decreased to 56.4% from 71.8% in June, and the 5-year ratio fell to 60.0% from 74.4%. The intermediate-term ratio dropped to 66.3% from 75.9% and the 10-year ratio decreased to 75.2% from 81.5%. The 30-year ratio dropped to 88.7% from 91.3%, according to TM3 data.
 - The Municipal curve steepened in June with the AAA MMD 2-year/10-year slope rising to 45 bps from 38 bps in June, and the AAA MMD 2-year/30-year slope increasing to 117 bps from June's 106 bps.

Spot Rates				
Term	Current 7/31/2019	1 Week Ago 7/24/2019	1 Month Ago 6/28/2019	1 Year Ago 7/31/2018
2-Year	1.07	1.11	1.25	1.62
3-Year	1.08	1.12	1.26	1.76
5-Year	1.11	1.15	1.31	1.97
7-Year	1.28	1.31	1.42	2.19
10-Year	1.52	1.54	1.63	2.45
30-Year	2.24	2.25	2.31	3.01

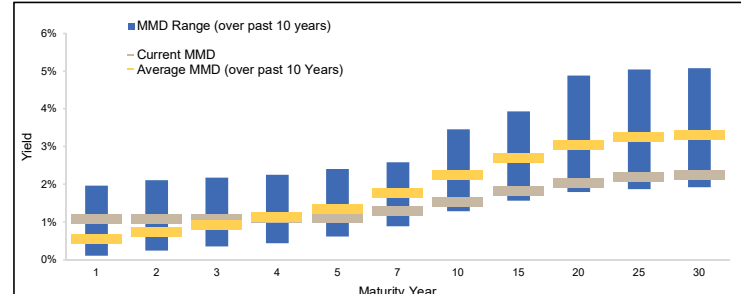
Change in Spot Rate (basis points)			
Term	1 Week Ago 7/24/2019	1 Month Ago 6/28/2019	1 Year Ago 7/31/2018
2-Year	-4	-18	-55
3-Year	-4	-18	-68
5-Year	-4	-20	-86
7-Year	-3	-14	-91
10-Year	-2	-11	-93
30-Year	-1	-7	-77

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.07%	1.87%	1.00
3-Year	1.08%	1.83%	0.94
5-Year	1.11%	1.83%	0.93
7-Year	1.28%	1.92%	1.00
10-Year	1.52%	2.02%	1.11
30-Year	2.24%	2.53%	1.44

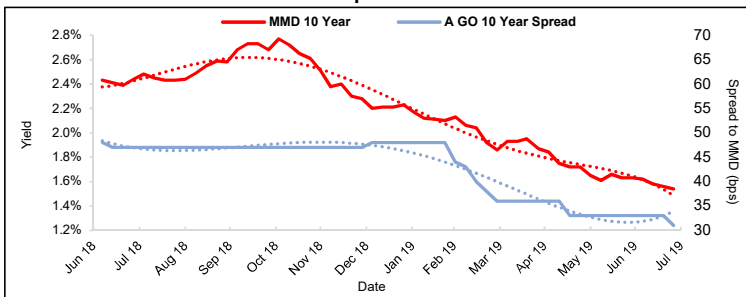
MMD AAA GO Curve



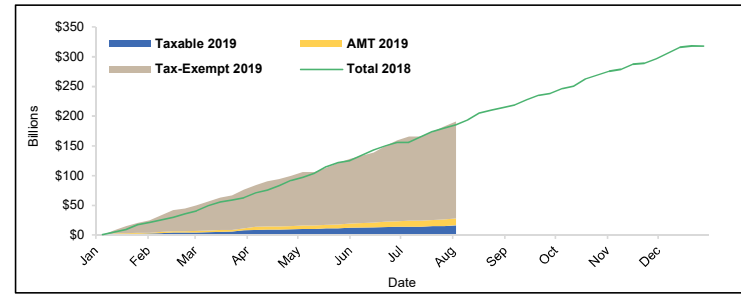
MMD Rates Over Time



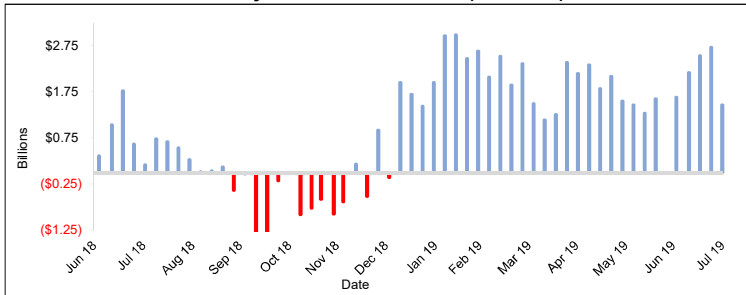
Rate and Spread Movement



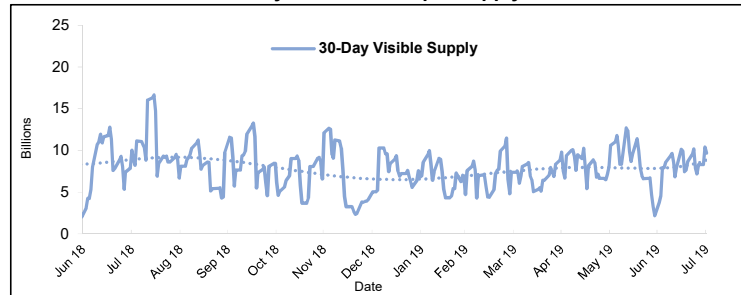
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
08/08/2019	10:00 AM	Wholesale Inventories MoM	08/15/2019	09:45 AM	Bloomberg Consumer Comfort	08/22/2019	10:00 AM	Leading Index
08/09/2019	08:30 AM	PPI Final Demand MoM	08/15/2019	10:00 AM	NAHB Housing Market Index	08/22/2019	11:00 AM	Kansas City Fed Manf. Activity
08/09/2019	08:30 AM	PPI Ex Food and Energy MoM	08/15/2019	10:00 AM	Business Inventories	08/23/2019	10:00 AM	New Home Sales
08/09/2019	08:30 AM	PPI Ex Food, Energy, Trade MoM	08/15/2019	04:00 PM	Net Long-term TIC Flows	08/23/2019	10:00 AM	New Home Sales MoM
08/09/2019	08:30 AM	PPI Ex Food, Energy, Trade YoY	08/15/2019	04:00 PM	Total Net TIC Flows	08/26/2019	08:30 AM	Chicago Fed Nat Activity Index
08/12/2019	02:00 PM	Monthly Budget Statement	08/16/2019	08:30 AM	Housing Starts	08/26/2019	08:30 AM	Cap Goods Ship Nondef Ex Air
08/13/2019	06:00 AM	NFIB Small Business Optimism	08/16/2019	08:30 AM	Housing Starts MoM	08/26/2019	10:30 AM	Dallas Fed Manf. Activity
08/13/2019	08:30 AM	CPI MoM	08/16/2019	10:00 AM	U. of Mich. 1 Yr Inflation	08/27/2019	09:00 AM	House Price Purchase Index QoQ
08/13/2019	08:30 AM	Real Avg Hourly Earning YoY	08/16/2019	10:00 AM	U. of Mich. 5-10 Yr Inflation	08/27/2019	09:00 AM	FHFA House Price Index MoM
08/13/2019	08:30 AM	Real Avg Weekly Earnings YoY	08/21/2019	07:00 AM	MBA Mortgage Applications	08/27/2019	09:00 AM	S&P CoreLogic CS 20-City MoM SA
08/14/2019	07:00 AM	MBA Mortgage Applications	08/21/2019	10:00 AM	Existing Home Sales	08/29/2019	08:30 AM	Initial Jobless Claims
08/14/2019	08:30 AM	Import Price Index MoM	08/21/2019	10:00 AM	Existing Home Sales MoM	08/29/2019	08:30 AM	Continuing Claims
08/14/2019	08:30 AM	Export Price Index YoY	08/21/2019	02:00 PM	FOMC Meeting Minutes	08/29/2019	09:45 AM	Bloomberg Consumer Comfort
08/15/2019	08:30 AM	Empire Manufacturing	08/22/2019	08:30 AM	Initial Jobless Claims	08/30/2019	10:00 AM	U. of Mich. Sentiment
08/15/2019	08:30 AM	Nonfarm Productivity	08/22/2019	08:30 AM	Continuing Claims	08/30/2019	10:00 AM	U. of Mich. Current Conditions

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

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