



Monthly Market Review

“Is this the eye of the hurricane?”

Economic Highlights

- The U.S. economy continues to slowly recover in the face of a recent resurgence in COVID-19 cases in several states. At the same time, sharp tensions between the U.S. and China have emerged from the pandemic's shadow.
- The Federal Reserve (Fed) left its policies unchanged at the July Federal Open Market Committee meeting and reinforced its commitment to support economic recovery with an expansive monetary policy. The Fed intends to keep rates near zero, continue its purchase of government securities and maintain its support of the credit markets. These efforts are likely to remain until the monetary policy body is confident that the economy has weathered the virus and is on track to achieve its goals of maximum employment and stable prices.
- The U.S. economy suffered a record contraction in the second quarter as gross domestic product fell by an annual rate of 32.9%. The decline was driven by a deep pullback in consumer spending, which accounts for about 70% of economic activity. Business investment and residential housing also suffered sharp declines, while federal government spending rose. U.S. economic activity is expected to rebound in the second half of the year.
- The U.S. economy added 1.8 million jobs in July following a record 4.8 million jobs in June. Job gains in leisure and hospitality and the government sector accounted for more than half of the total gains. The unemployment rate continued to improve, falling from 11.1% to 10.2% in July. A job gap remains compared to pre-pandemic numbers, and there are 15 million fewer employed workers in the U.S.
- Manufacturing and service sector activity picked up again in July. ISM manufacturing rose on a sharp acceleration in new orders. ISM services activity also expanded at a better-than-expected pace.

Bond Markets

- Treasury yields fell during the month, with longer-term yields leading the retreat, resulting in a flatter yield curve. The yield on maturities between two and 10 years settled at new lows as bond market volatility waned.
- Falling Treasury yields led to positive performance, especially in longer maturities. For the month, the 3-month Treasury index returned 0.02%, the 5-year index returned 0.40% and the 10-year index returned 1.16%.

- New supply shrank in the investment-grade (IG) corporate bond markets as IG companies raised \$68 billion of debt, less than half of the \$180 billion raised in June. Meanwhile, 1- to 5-year IG corporates generated excess returns relative to Treasuries of 35 to 65 basis points (bps) in August, while longer corporate maturities offered upwards of 300 bps of excess return.

Municipal Bond Market

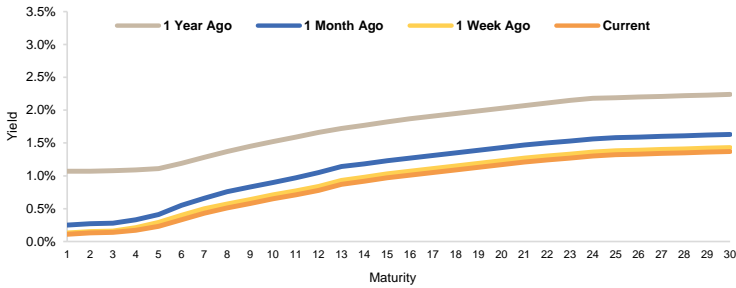
- Municipal new issuance increased in July by 46.4% to \$44.2 billion from \$30.2 billion the same month last year. Year-to-date municipal new issuance is up 22.7% to \$249.9 billion for 2020 from \$203.8 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- July experienced positive bond fund flows throughout the month and ended with net inflows totaling \$12.4 billion, following June's net inflows of \$13.7 billion, according to Investment Company Institute (ICI) data.
- In July, the Municipal Market Data (MMD) Index experienced a decrease throughout the yield curve. On the short-end, the 1-year rate fell 14 bps to 0.11%, and the 3-year rate dropped 14 bps to 0.14%. The 5-year rate declined by 18 bps to 0.23%. On the long-end, the 10-year rate decreased 25 bps to 0.60% and the 30-year rate fell by 26 bps to 1.37%, according to Municipal Market Monitor (TM3) data.
- During July, the 10-year MMD Single-A General Obligation (GO) Index credit spread fell to 37 bps from 41 bps in June and the Double-A GO Index credit spread remained unchanged at 15 bps, according to TM3 data.
- Municipal-to-Treasury ratios fell in July. The 2-year ratio decreased to 117.1% from 177.6%, and the 5-year ratio fell to 107.0% from 143.4%. The intermediate-term ratio declined to 110.0% from 135.0%, and the 10-year ratio dropped to 120.8% from 136.4% in June. The 30-year ratio decreased slightly to 114.2% from 114.8%, according to TM3 data.
- The Municipal curve tightened in July with the AAA MMD 2- through 10-year slope dropping to 52 bps from June's 63 bps, and the slope between the AAA MMD 2- through 30-year falling to 124 bps from June's 136 bps.

Spot Rates				
Term	Current 7/31/2020	1 Week Ago 7/24/2020	1 Month Ago 6/30/2020	1 Year Ago 7/31/2019
2-Year	0.13	0.15	0.27	1.07
3-Year	0.14	0.16	0.28	1.08
5-Year	0.23	0.29	0.41	1.11
7-Year	0.43	0.50	0.66	1.28
10-Year	0.65	0.71	0.90	1.52
30-Year	1.37	1.43	1.63	2.24

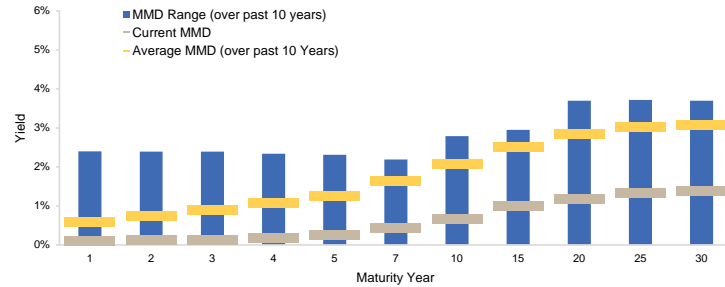
Change in Spot Rate (basis points)			
	1 Week Ago 7/24/2020	1 Month Ago 6/30/2020	1 Year Ago 7/31/2019
2-Year	-2	-14	-94
3-Year	-2	-14	-94
5-Year	-6	-18	-88
7-Year	-7	-23	-85
10-Year	-6	-25	-87
30-Year	-6	-26	-87

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.13%	0.11%	0.17
3-Year	0.14%	0.12%	0.19
5-Year	0.23%	0.21%	0.27
7-Year	0.43%	0.38%	0.40
10-Year	0.65%	0.53%	0.57
30-Year	1.37%	1.19%	0.93

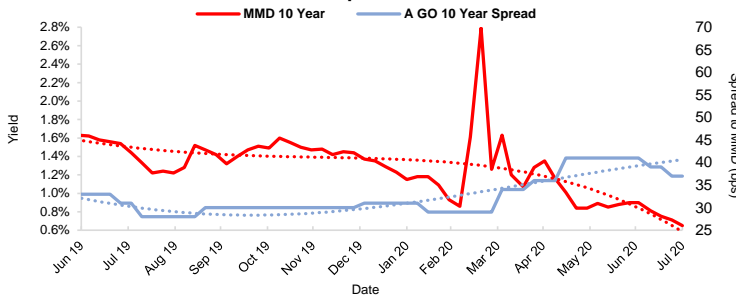
MMD AAA GO Curve



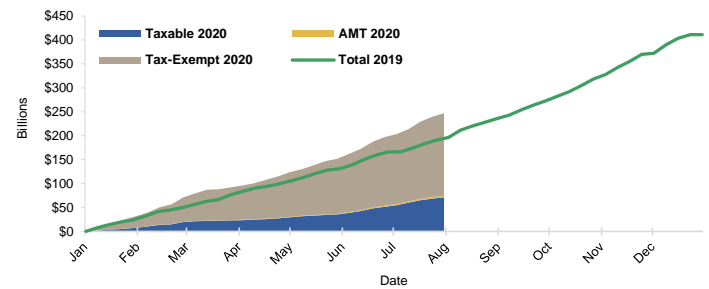
MMD Rates Over Time



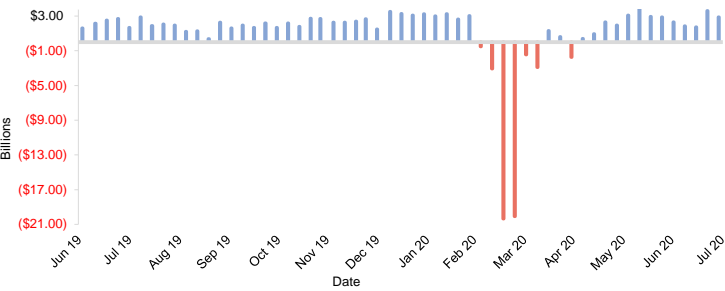
Rate and Spread Movement



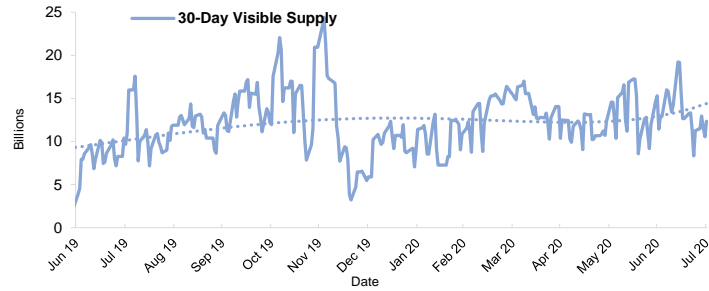
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
08/17/2020	08:30 AM	Empire Manufacturing	08/25/2020	09:00 AM	House Price Purchase Index QoQ	08/27/2020	08:30 AM	Continuing Claims
08/17/2020	10:00 AM	NAHB Housing Market Index	08/25/2020	09:00 AM	FHFA House Price Index MoM	08/27/2020	09:45 AM	Bloomberg Consumer Comfort
08/17/2020	04:00 PM	Net Long-term TIC Flows	08/25/2020	09:00 AM	S&P CoreLogic CS 20-City MoM SA	08/27/2020	10:00 AM	Pending Home Sales MoM
08/17/2020	04:00 PM	Total Net TIC Flows	08/25/2020	10:00 AM	Conf. Board Consumer Confidence	08/27/2020	10:00 AM	Pending Home Sales NSA YoY
08/18/2020	08:30 AM	Building Permits	08/25/2020	10:00 AM	Conf. Board Present Situation	08/27/2020	11:00 AM	Kansas City Fed Manf. Activity
08/18/2020	08:30 AM	Building Permits MoM	08/26/2020	07:00 AM	MBA Mortgage Applications	08/28/2020	08:30 AM	Personal Income
08/18/2020	08:30 AM	Housing Starts	08/26/2020	08:30 AM	Durable Goods Orders	08/28/2020	08:30 AM	Wholesale Inventories MoM
08/19/2020	02:00 PM	FOMC Meeting Minutes	08/26/2020	08:30 AM	Durables Ex Transportation	08/28/2020	08:30 AM	Retail Inventories MoM
08/20/2020	08:30 AM	Philadelphia Fed Business Outlook	08/26/2020	08:30 AM	Cap Goods Orders Nondef Ex Air	08/28/2020	08:30 AM	PCE Deflator MoM
08/20/2020	08:30 AM	Initial Jobless Claims	08/26/2020	08:30 AM	Cap Goods Ship Nondef Ex Air	08/28/2020	08:30 AM	PCE Core Deflator MoM
08/20/2020	09:45 AM	Bloomberg Economic Expectations	08/27/2020	08:30 AM	GDP Annualized QoQ	08/28/2020	08:30 AM	PCE Core Deflator YoY
08/20/2020	09:45 AM	Bloomberg Consumer Comfort	08/27/2020	08:30 AM	Personal Consumption	08/28/2020	09:45 AM	MNI Chicago PMI
08/20/2020	10:00 AM	Leading Index	08/27/2020	08:30 AM	GDP Price Index	08/28/2020	10:00 AM	U. of Mich. Expectations
08/21/2020	09:45 AM	Markit US Composite PMI	08/27/2020	08:30 AM	Core PCE QoQ	08/28/2020	10:00 AM	U. of Mich. 5-10 Yr Inflation
08/21/2020	10:00 AM	Existing Home Sales MoM	08/27/2020	08:30 AM	Initial Jobless Claims	08/31/2020	10:30 AM	Dallas Fed Manf. Activity

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

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