



Monthly Market Review

"Here we go again."

Economic Highlights

- New coronavirus cases are once again surging as the Delta variant grips the globe. In the U.S., new cases spiked from a seven-day average of about 13,000 at the end of June to over 78,000 at the end of July, now appearing headed sharply higher. The rise in infections has triggered a wave of new public health restrictions by state and local governments and has the potential to disrupt the U.S. economic recovery.
- The U.S. economy grew at an annualized rate of 6.5% in the second quarter — strong but well short of estimates. Gross domestic product reflected robust consumer spending and outlays for business equipment but was held back by significant decreases in private inventories. They were drawn down as a result of supply shortages, residential investment and federal government spending.
- U.S. job growth was strong in July. The economy added 943,000 jobs, led once again by gains in service sectors. Job growth has averaged 831,000 jobs in the last three months. The unemployment rate fell a full half percent to 5.4%. Wages continued to increase, while the average manufacturing workweek matched the best reading since the onset of the pandemic.
- The ISM Manufacturing Purchasing Managers Index registered an unexpected decrease in July amid conditions where "companies and suppliers continue to struggle to meet increasing demand" and are being "impacted by near record-long raw material lead times, continued shortages of critical basic materials, rising commodities prices and difficulties in transporting products." Meanwhile, the ISM Services Sector PMI grew for the 14th month in a row to an all-time high.
- At the July Federal Open Market Committee (FOMC) meeting, the Federal Reserve (Fed) kept short-term rates near zero and asset purchases at \$120 billion per month. The Fed noted that the economy has made progress toward its employment and inflation goals and continues to view the recent surge in inflation as transitory. Fed Chair Jerome Powell commented that labor market conditions nevertheless remain "some way away" from reaching the central bank's goals for removing policy accommodation.
- U.S. senators unveiled the \$1 trillion bipartisan "Infrastructure Investment and Jobs Act" that includes \$550 billion in new federal spending on America's roads and bridges, clean drinking water and wastewater infrastructure, public transit, high-speed internet, clean energy transmission and electric vehicle infrastructure.
- Concerns that the Delta variant could trigger another infection surge, along with some weaker economic data, weigh on the outlook for economic growth and put downward pressure on long-term rates. Bond yields evidence investor sentiment that inflation will not accelerate once pandemic-related disruptions pass.
- Usage of the Fed's Reverse Repo Facility surged to a record \$1.04 trillion, indicating continuing imbalances in short-term markets, partly due to drawdowns of the Treasury's cash account.
- Treasury performance was positive in July as government securities with long tenors continue to rally. The 3-month Treasury index performance was again marginally flat, while the 5- and 10-year Treasury index advanced 1.0% and 2.0%, respectively.
- Investment-grade (IG) corporate bond returns lagged those of Treasuries. Although issuance slowed a bit to \$65.5 billion in July, yield spreads widened marginally.

Municipal Bond Market

- Municipal new issuance fell significantly in July by 31% to \$32.9 billion from \$47.7 billion the same month last year. Total municipal new issuance for 2021 is up 2.4% to \$264.3 billion for the year compared to the \$258.1 billion recorded in 2020, according to the Municipal Market Monitor (TM3) data.
- July experienced positive bond flows throughout the month and ended with net inflows totaling \$11.9 billion, following July's net inflows of \$11.8 billion, according to Investment Company Institute (ICI) data.
- In July, the Municipal Market Data (MMD) Index experienced decreasing rates across the curve. The 1-year rate fell 7 bps to 0.05%, while the 3-year dropped 11 bps to 0.13%. The 5-year rate decreased 13 bps to 0.36% from 0.49%, and the 10-year rate declined 17 bps to 0.82%. On the long end, the 30-year rate declined to 1.39% from 1.50%, in July, according to TM3 data.
- During July, the 10-year MMD Single-A General Obligation (GO) Index credit spread remained constant at 25 bps, and the Double-A GO Index credit also remained constant at 13 bps.
- The Municipal-to-Treasury ratios experienced mixed changes throughout the curve in July. The 2-year ratio declined to 31.6% from 64.3%, and the 5-year ratio dropped to 51.2% from 56.0% last month. The intermediate-term ratio decreased to 56.4% from 56.7%, and the 10-year ratio fell to 66.7% from 68.5% in July. The 30-year ratio increased in July to 73.4% from 72.4% last month, according to TM3 data.
- The Municipal curve flattened in July, with the AAA MMD 2- through 10-year slope decreasing to 76 bps from 83 bps in July. The slope between the AAA MMD 2- through 30-year declined slightly to 133 bps from 134 bps in July.

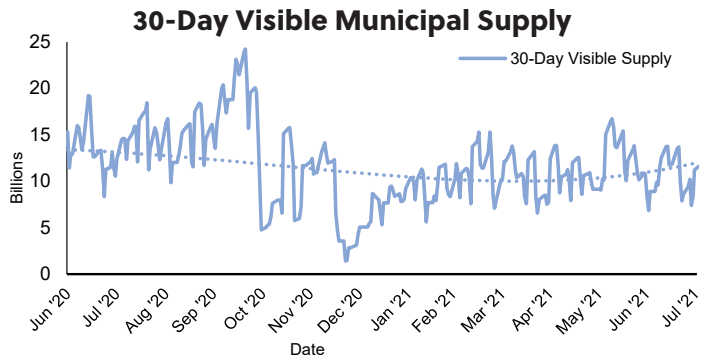
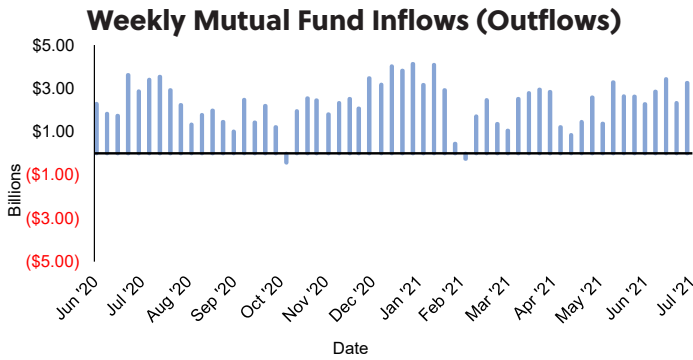
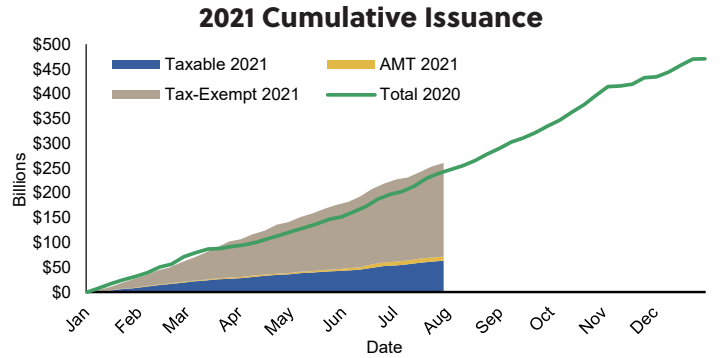
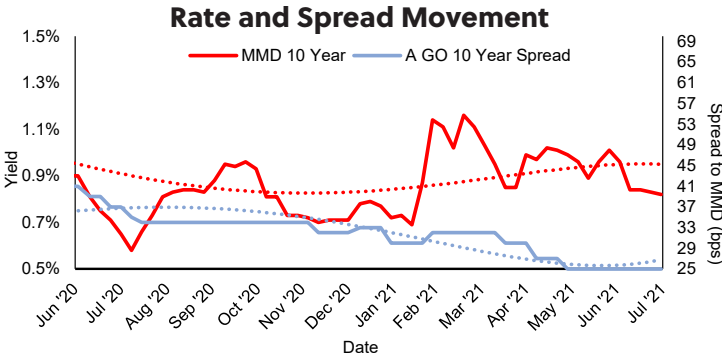
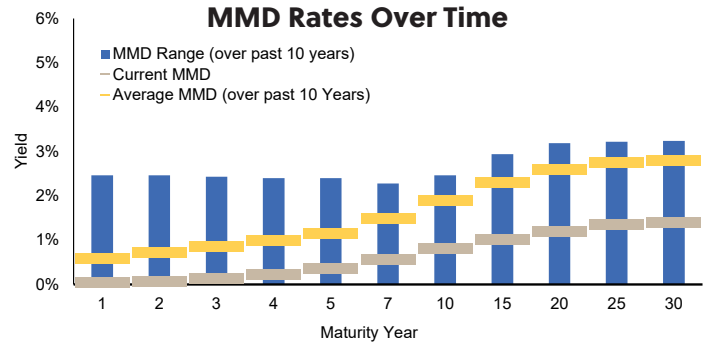
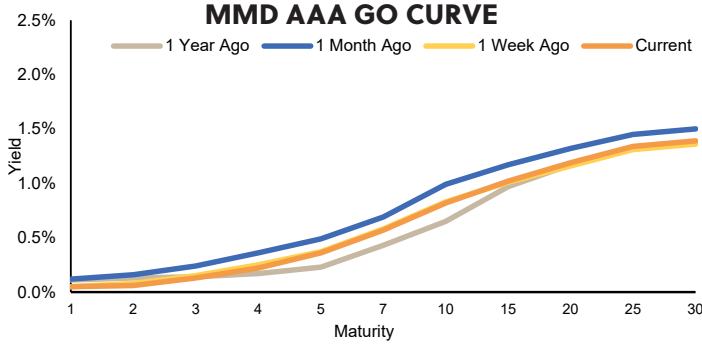
Bond Markets

- Long-term Treasury yields continued to trend lower in July, while short-term yields were largely unchanged, resulting in a flatter yield curve. Yields on the benchmark 2- and 10-year Treasury note fell six and 25 basis points (bps), respectively. The 10-year posted the biggest monthly decline since the onset of the pandemic in March 2020.

Spot Rates				
Term	Current 7/30/2021	1 Week Ago 7/23/2021	1 Month Ago 6/30/2021	1 Year Ago 7/31/2020
2-Year	0.06	0.08	0.16	0.13
3-Year	0.13	0.15	0.24	0.14
5-Year	0.36	0.37	0.49	0.23
7-Year	0.57	0.58	0.69	0.43
10-Year	0.82	0.83	0.99	0.65
30-Year	1.39	1.36	1.50	1.37

Change in Spot Rate (basis points)			
Term	1 Week Ago 7/23/2021	1 Month Ago 6/30/2021	1 Year Ago 7/31/2020
2-Year	-2	-10	-7
3-Year	-2	-11	-1
5-Year	-1	-13	13
7-Year	-1	-12	14
10-Year	-1	-17	17
30-Year	3	-11	2

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.06%	0.19%	0.15%
3-Year	0.13%	0.34%	0.28%
5-Year	0.36%	0.69%	0.52%
7-Year	0.57%	1.00%	0.71%
10-Year	0.82%	1.22%	0.91%
30-Year	1.39%	1.89%	1.35%



Economic Calendar								
Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
08/09/2021	12:00 AM	JOLTS Job Openings	08/13/2021	10:00 AM	U. of Mich. Current Conditions	08/23/2021	08:30 AM	Chicago Fed Nat Activity Index
08/10/2021	06:00 AM	NFIB Small Business Optimism	08/13/2021	10:00 AM	U. of Mich. Expectations	08/23/2021	09:45 AM	Markit US Manufacturing PMI
08/10/2021	08:30 AM	Nonfarm Productivity	08/13/2021	10:00 AM	U. of Mich. 1 Yr Inflation	08/23/2021	09:45 AM	Markit US Services PMI
08/10/2021	08:30 AM	Unit Labor Costs	08/13/2021	10:00 AM	U. of Mich. 5-10 Yr Inflation	08/24/2021	10:00 AM	New Home Sales
08/11/2021	07:00 AM	MBA Mortgage Applications	08/16/2021	08:30 AM	Empire Manufacturing	08/24/2021	10:00 AM	New Home Sales MoM
08/11/2021	08:30 AM	CPI MoM	08/16/2021	04:00 PM	Net Long-term TIC Flows	08/25/2021	07:00 AM	MBA Mortgage Applications
08/11/2021	08:30 AM	CPI Ex Food and Energy MoM	08/17/2021	08:30 AM	Retail Sales Advance MoM	08/25/2021	08:30 AM	Durable Goods Orders
08/11/2021	02:00 PM	Monthly Budget Statement	08/17/2021	08:30 AM	Retail Sales Ex Auto MoM	08/25/2021	08:30 AM	Cap Goods Ship Nondef Ex Air
08/12/2021	08:30 AM	PPI Final Demand MoM	08/17/2021	08:30 AM	Retail Sales Ex Auto and Gas	08/26/2021	08:30 AM	GDP Annualized QoQ
08/12/2021	08:30 AM	Initial Jobless Claims	08/17/2021	10:00 AM	NAHB Housing Market Index	08/26/2021	08:30 AM	Personal Consumption
08/12/2021	08:30 AM	PPI Ex Food and Energy MoM	08/18/2021	07:00 AM	MBA Mortgage Applications	08/27/2021	08:30 AM	Advance Goods Trade Balance
08/12/2021	08:30 AM	PPI Ex Food and Energy YoY	08/18/2021	08:30 AM	Building Permits MoM	08/27/2021	08:30 AM	Retail Inventories MoM
08/12/2021	08:30 AM	PPI Ex Food, Energy, Trade YoY	08/18/2021	08:30 AM	Building Permits	08/27/2021	08:30 AM	Personal Income
08/12/2021	09:45 AM	Langer Consumer Comfort	08/19/2021	08:30 AM	Philadelphia Fed Business Outlook	08/30/2021	10:00 AM	Pending Home Sales MoM
08/13/2021	08:30 AM	Import Price Index MoM	08/19/2021	08:30 AM	Initial Jobless Claims	08/30/2021	10:00 AM	Pending Home Sales NSA YoY

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of July 31, 2021.

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