



Monthly Market Review

“Build Back Better” — Bullish for the economy, challenging for the bond market.

Economic Highlights

- January, true to the name's Latin roots, marked beginnings and transitions in the new year. A new administration began in Washington D.C., shattering racial and gender barriers across the new leadership team, portending major policy changes. At the same time, the COVID-19 pandemic continued to take its toll on health and wellbeing, while an early phase of the vaccination program held out hope for bringing the disease under control.
- Consumer and business confidence fell amid a strong resurgence of COVID-19 cases, an initially slow vaccine rollout and political unrest that culminated in the capitol siege on January 6.
- Joe Biden was sworn in as the 46th President of the United States and quickly signed a historic number of executive actions, reversing many of the former administration's policies. The immediate priorities were then focused on fighting the COVID-19 pandemic and enacting a \$1.9 trillion economic relief package designed to support families, schools and businesses.
- As expected, the Federal Reserve (Fed) maintained near-zero short-term rates and reaffirmed its commitment to support employment and manage price stability. The Fed kept the large scale of its current asset purchase program of \$120 billion in government bonds per month.
- The U.S. labor market faltered as the economy added only 49,000 jobs in January, following a revised-lower 227,000 job loss in December. Although the number of Americans filing for unemployment benefits fell, it has remained above 700,000 for 47 straight weeks. The unemployment rate fell to 6.3%, but the improvement has come mainly because people have left the workforce. Total non-farm employment is nearly 10 million lower than pre-pandemic levels.
- The housing market strength is seemingly immune to the ongoing pandemic. After a small November dip, both existing and new home sales rebounded in December, supported by record-low mortgage rates.

Bond Markets

- The U.S. Treasury yield curve steepened in January due to anticipated economic improvement later in the year and the potential for higher inflation. The yield on the benchmark 2-year note was relatively unchanged at 0.11%, while the yield on the 10-year note rose 15 basis points (bps) to 1.07%, pushing the 2-year to 10-year maturity yield spread to the highest level since 2017.
- Rising yields on longer-dated U.S. Treasuries produced negative returns for the month, while stable yields on short maturities generated marginally positive returns. The 3-month and 2-year Treasury indices returned 0.01% in January, while the 10-year index posted a loss of 1.62%.

- Financing conditions remain favorable, supporting somewhat higher monthly returns for investment-grade (IG) corporate bonds compared to matched maturity Treasuries. Corporate issuance was robust, an indication that companies are continuing to take advantage of the attractive borrowing environment.

Municipal Bond Market

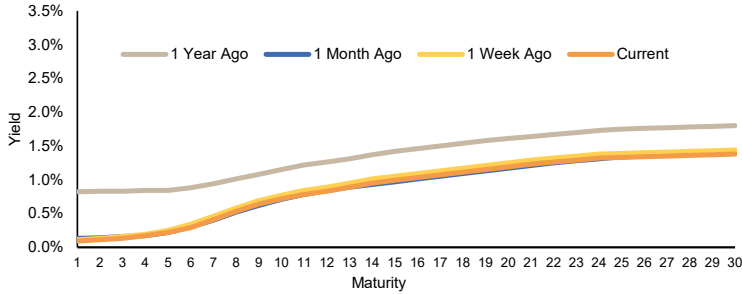
- Municipal new issuance fell in January by 22.9% to \$25.3 billion, from \$32.8 billion the same month last year.
- January experienced positive bond flows throughout the month and ended with net inflows totaling \$15.2 billion, following December's net inflows of \$11.9 billion, according to Investment Company Institute (ICI) data.
- In January, the Municipal Market Data (MMD) Index experienced slight mixed changes in rates across the curve. The 1-year rate fell 4 bps to .09%, and the 3-year declined 3 bps to 0.13%. The 5-year rate remained at 0.22%, while the 10-year rate rose by 1 bp to 0.72%. On the long end, the 30-year rate dropped 1 bp to 1.38%, according to TM3 data.
- During January, the 10-year MMD Single-A General Obligation (GO) Index credit spread fell 2 bps to 30 bps, and the Double-A GO Index credit remained at 13 bps.
- The Municipal-to-Treasury ratios declined across the curve in January. The 2-year ratio dropped to 94.0% from 115.7%, and the 5-year ratio fell to 50.6% from 60.9% last month. The intermediate-term ratio dropped to 52.4% from 62.2%, and the 10-year ratio decreased to 66.9% from 77.2% in December. The 30-year ratio also declined in January to 75.0% from 84.2% last month, according to TM3 data.
- The Municipal curve steepened in January, with the AAA MMD 2- through 10-year slope increasing from 57 bps to 61 bps and the slope between the AAA MMD 2- through 30-year rising to 127 bps from December's 125 bps.

Spot Rates				
Term	Current 1/29/2021	1 Week Ago 1/22/2021	1 Month Ago 12/31/2020	1 Year Ago 1/31/2020
2-Year	0.11	0.13	0.14	0.83
3-Year	0.13	0.16	0.16	0.83
5-Year	0.22	0.25	0.22	0.84
7-Year	0.41	0.46	0.40	0.94
10-Year	0.72	0.77	0.71	1.15
30-Year	1.38	1.44	1.39	1.80

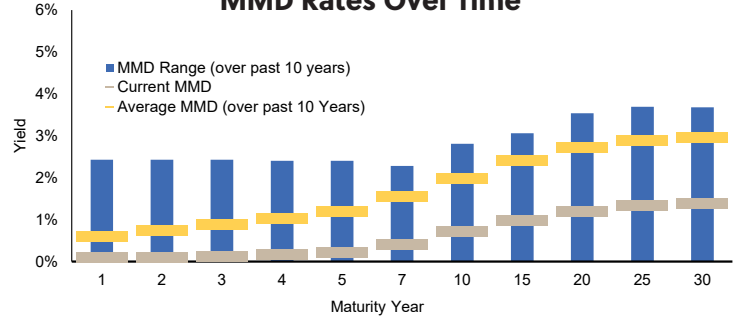
Change in Spot Rate (basis points)			
Term	1 Week Ago 1/22/2021	1 Month Ago 12/31/2020	1 Year Ago 1/31/2020
2-Year	-2	-3	-72
3-Year	-3	-3	-70
5-Year	-3	0	-62
7-Year	-5	1	-53
10-Year	-5	1	-43
30-Year	-6	-1	-42

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.11%	0.11%	0.12%
3-Year	0.13%	0.17%	0.17%
5-Year	0.22%	0.42%	0.39%
7-Year	0.41%	0.76%	0.62%
10-Year	0.72%	1.07%	0.90%
30-Year	1.38%	1.83%	1.43%

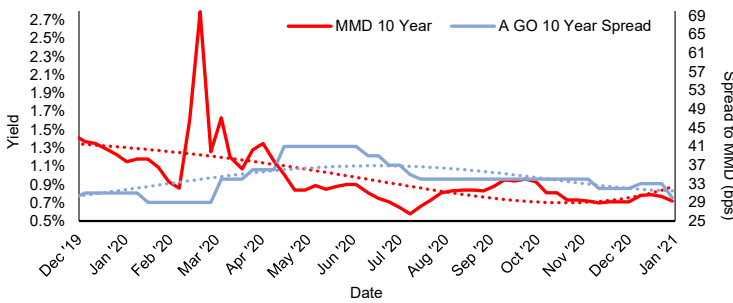
MMD AAA GO CURVE



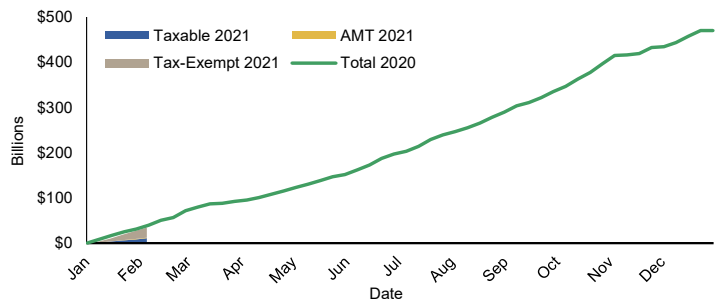
MMD Rates Over Time



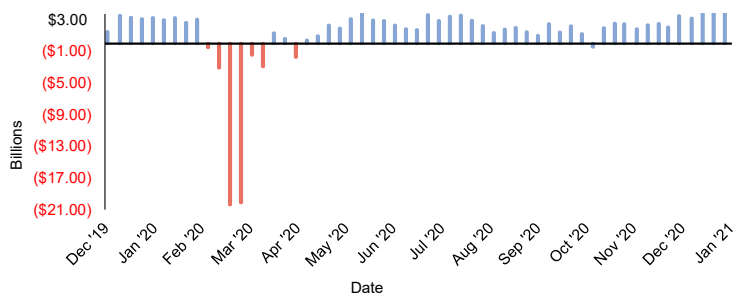
Rate and Spread Movement



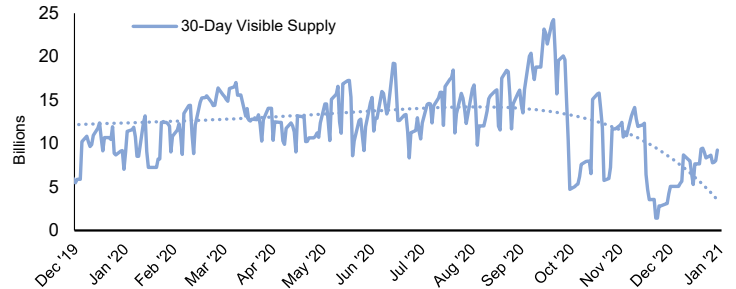
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
02/16/2021	08:30 AM	Empire Manufacturing	02/19/2021	10:00 AM	Existing Home Sales MoM	02/25/2021	08:30 AM	GDP Price Index
02/16/2021	04:00 PM	Total Net TIC Flows	02/22/2021	08:30 AM	Chicago Fed Nat Activity Index	02/25/2021	08:30 AM	Core PCE QoQ
02/16/2021	04:00 PM	Net Long-term TIC Flows	02/22/2021	10:00 AM	Leading Index	02/25/2021	09:45 AM	Bloomberg Consumer Comfort
02/17/2021	07:00 AM	MBA Mortgage Applications	02/22/2021	10:30 AM	Dallas Fed Manf. Activity	02/25/2021	10:00 AM	Pending Home Sales MoM
02/17/2021	08:30 AM	PPI Final Demand MoM	02/23/2021	09:00 AM	S&P CoreLogic CS US HPI YoY NSA	02/25/2021	10:00 AM	Pending Home Sales NSA YoY
02/17/2021	09:15 AM	Capacity Utilization	02/23/2021	10:00 AM	Conf. Board Consumer Confidence	02/25/2021	11:00 AM	Kansas City Fed Manf. Activity
02/17/2021	09:15 AM	Manufacturing (SIC) Production	02/23/2021	10:00 AM	Conf. Board Present Situation	02/26/2021	08:30 AM	Advance Goods Trade Balance
02/18/2021	08:30 AM	Building Permits MoM	02/24/2021	07:00 AM	MBA Mortgage Applications	02/26/2021	08:30 AM	Personal Spending
02/18/2021	08:30 AM	Housing Starts	02/24/2021	10:00 AM	New Home Sales	02/26/2021	08:30 AM	Wholesale Inventories MoM
02/18/2021	08:30 AM	Continuing Claims	02/24/2021	10:00 AM	New Home Sales MoM	02/26/2021	08:30 AM	Real Personal Spending
02/18/2021	08:30 AM	Import Price Index ex Petroleum MoM	02/25/2021	08:30 AM	Initial Jobless Claims	02/26/2021	08:30 AM	PCE Deflator MoM
02/18/2021	08:30 AM	Philadelphia Fed Business Outlook	02/25/2021	08:30 AM	Durables Ex Transportation	02/26/2021	08:30 AM	PCE Deflator YoY
02/19/2021	09:45 AM	Markit US Manufacturing PMI	02/25/2021	08:30 AM	Cap Goods Orders Nondef Ex Air	02/26/2021	09:45 AM	MNI Chicago PMI
02/19/2021	09:45 AM	Markit US Composite PMI	02/25/2021	08:30 AM	GDP Annualized QoQ	02/26/2021	10:00 AM	U. of Mich. Sentiment
02/19/2021	09:45 AM	Markit US Services PMI	02/25/2021	08:30 AM	Cap Goods Ship Nondef Ex Air	02/26/2021	10:00 AM	U. of Mich. Current Conditions

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of January 29, 2021.

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.

