



Monthly Market Review

So we beat on, boats against the current...

Economic Highlights

- As investors set sail into the new decade, we reflect on the remarkable decade now behind us. The 2010s overcame upheavals in the geopolitical order, credit and oil shocks, and sovereign meltdowns. And despite these volatile winds, equities had an epic bull market run; bonds also had a bull market run; and the U.S. Dollar reigned supreme, enjoying its unique privilege amid unprecedented monetary expansion by major central banks.
- After three consecutive rate cuts, the Federal Reserve (Fed) kept rates steady at its December meeting, maintaining the target range at 1.5% to 1.75%. It signaled a view that the economy is solid and the current policy stance will remain appropriate as long as "incoming data remains broadly consistent with the outlook."
- The final estimate of third quarter U.S. gross domestic product (GDP) growth was unrevised at 2.1%. The consumer provided much-needed ballast to the economy.
- The U.S. economy added 145,000 jobs in December. The positive yet weaker-than-expected payroll report suggested momentum has eased. The unemployment and labor force participation rates were both unchanged at 3.5% and 63.2%, respectively.
- Although the "Phase One" trade deal with China was not yet signed in December, the markets gave a positive signal in that equities continued to move higher and yield spreads remain low and well contained.
- December releases revealed that inflation pressures were muted. While price pressures on services were stable, pressures on goods drifted lower amid a gradual de-escalation in tariff measures. Core personal consumption expenditure (PCE) remains below the Fed's 2% target.
- Housing fundamentals were steady. Existing home sales fell in November, while new home sales increased, making this the best three months since 2007.

Bond Markets

- The U.S. Treasury yield curve steepened during December. Ultra-short (less than three months) Treasury yields fell 15 basis points (bps) as the front end of the curve sought equilibrium with the Fed target rate. Yields on maturities between three months and five years were generally flat (+/- 5 bps), while yields on longer Treasuries (greater than seven years) increased 10 to 20 bps.
- As result of the uneven yield curve move, short- and intermediate-term Treasuries outperformed longer maturities. For example, the 3-month and 2-year Constant Maturity U.S. Treasury Indexes returned 0.14% and 0.23%, respectively. Meanwhile, the 10-year and 30-year indexes generated total returns of -1.02% and -3.51%, respectively.

- Buoyed by stable credit fundamentals, accommodative central banks and modest new supply, credit sectors once again generated strong incremental performance. By month-end, high-quality credit spreads had reached historically tight levels, making valuations appear rich.

Municipal Bond Market

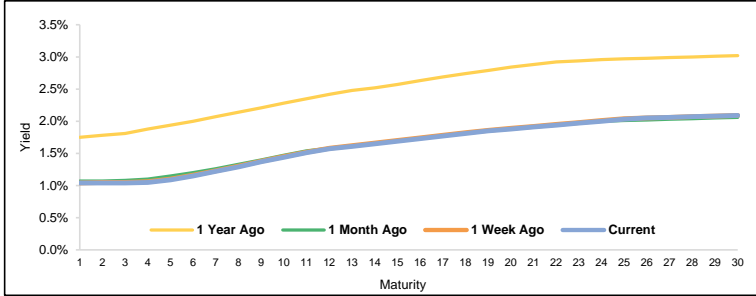
- Municipal new issuance ended the year on a strong note, increasing by 58.3% to \$40.9 billion from \$25.8 billion December of 2018. New issuance is up 22.0% year-over-year (YoY) to \$421.8 billion from \$349.5 billion last year, according to Municipal Market Monitor (TM3) data.
- December experienced positive bond flows throughout the month and ended with net inflows totaling \$9.61 billion, following November's net inflows of \$9.39 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced mixed changes in rates during December. On the front-end, the 1-year rate fell 3 bps to 1.04% and the 3-year rate dropped 4 bps to also reach 1.04%. The 5-year rate decreased 6 bps to 1.09%. On the long-end, the 10-year rate dipped by 3 bps to 1.44% and the 30-year rate increased 3 bps to .09%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread and the Double-A GO Index credit spread both remained unchanged at 30 bps and 14 bps, respectively, according to TM3 data.
- In December, Municipal-to-Treasury ratios experienced a decrease in ratios throughout the curve with one exception on the immediate front end. The 2-year ratio increased slightly to 66.7% from 66.6% in November, and the 5-year ratio dropped to 64.9% from 70.6%. The intermediate-term ratio decreased to 67.0% from 72.7% and the 10-year ratio fell to 75.4% from 82.4%. The 30-year ratio decreased to 87.9% from 93.2%, according to TM3 data.
- The Municipal curve steepened in December with the AAA MMD 2-year/10-year slope remaining unchanged at 40 bps and the AAA MMD 2-year/30-year slope increasing to 105 bps from November's 99 bps.

Spot Rates				
Term	Current 12/31/2019	1 Week Ago 12/24/2019	1 Month Ago 11/29/2019	1 Year Ago 12/31/2018
2-Year	1.04	1.05	1.07	1.78
3-Year	1.04	1.05	1.08	1.81
5-Year	1.09	1.10	1.15	1.94
7-Year	1.22	1.23	1.26	2.07
10-Year	1.44	1.45	1.47	2.28
30-Year	2.09	2.09	2.06	3.02

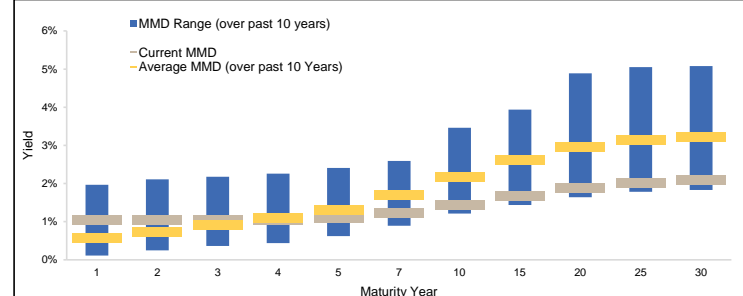
Change in Spot Rate (basis points)			
	1 Week Ago 12/24/2019	1 Month Ago 11/29/2019	1 Year Ago 12/31/2018
2-Year	-1	-3	-74
3-Year	-1	-4	-77
5-Year	-1	-6	-85
7-Year	-1	-4	-85
10-Year	-1	-3	-84
30-Year	0	3	-93

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.04%	1.57%	1.06
3-Year	1.04%	1.61%	1.05
5-Year	1.09%	1.69%	1.09
7-Year	1.22%	1.83%	1.17
10-Year	1.44%	1.92%	1.29
30-Year	2.09%	2.39%	1.63

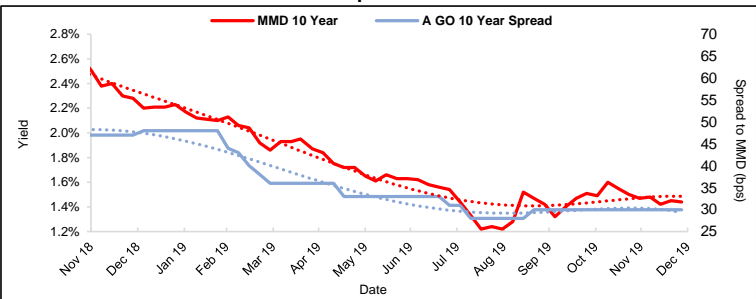
MMD AAA GO Curve



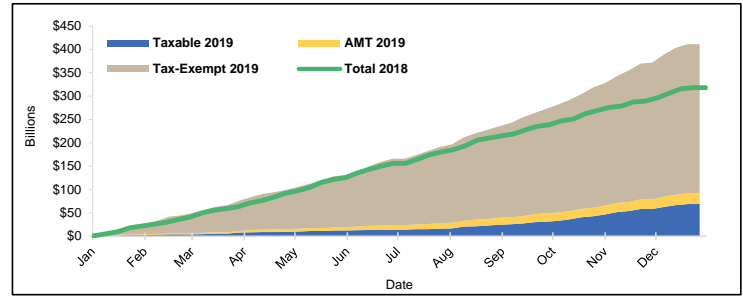
MMD Rates Over Time



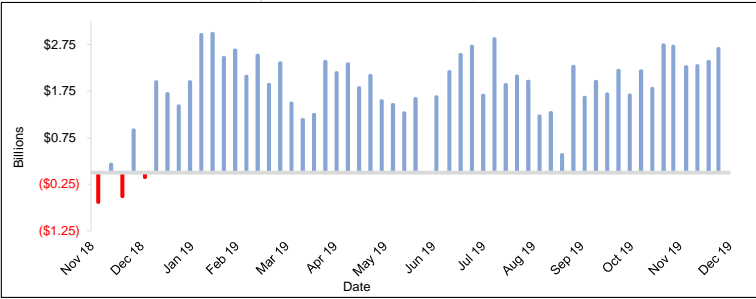
Rate and Spread Movement



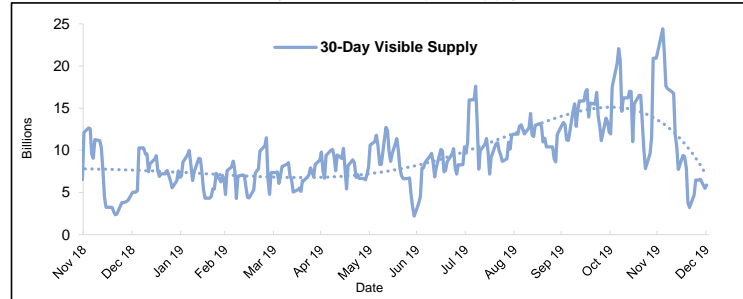
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
01/10/2020	08:30 AM	Underemployment Rate	01/16/2020	10:00 AM	NAHB Housing Market Index	01/27/2020	10:00 AM	New Home Sales MoM
01/10/2020	09:45 AM	Bloomberg Jan. United States Economic Survey	01/16/2020	04:00 PM	Net Long-term TIC Flows	01/27/2020	10:30 AM	Dallas Fed Manf. Activity
01/10/2020	10:00 AM	Wholesale Inventories MoM	01/16/2020	04:00 PM	Total Net TIC Flows	01/28/2020	08:30 AM	Durable Goods Orders
01/10/2020	10:00 AM	Wholesale Trade Sales MoM	01/17/2020	08:30 AM	Building Permits	01/28/2020	08:30 AM	Durables Ex Transportation
01/13/2020	02:00 PM	Monthly Budget Statement	01/17/2020	08:30 AM	Building Permits MoM	01/28/2020	08:30 AM	Cap Goods Orders Nondef Ex Air
01/14/2020	06:00 AM	NFIB Small Business Optimism	01/17/2020	08:30 AM	Housing Starts	01/28/2020	08:30 AM	Cap Goods Ship Nondef Ex Air
01/14/2020	08:30 AM	CPI MoM	01/22/2020	09:00 AM	FHFA House Price Index MoM	01/28/2020	09:00 AM	S&P CoreLogic CS US HPI YoY NSA
01/14/2020	08:30 AM	CPI Ex Food and Energy MoM	01/22/2020	10:00 AM	Existing Home Sales MoM	01/29/2020	02:00 PM	Interest Rate on Excess Reserves
01/15/2020	07:00 AM	MBA Mortgage Applications	01/22/2020	10:00 AM	Existing Home Sales	01/30/2020	08:30 AM	GDP Annualized QoQ
01/15/2020	08:30 AM	PPI Final Demand MoM	01/23/2020	08:30 AM	Initial Jobless Claims	01/30/2020	08:30 AM	Personal Consumption
01/15/2020	08:30 AM	PPI Ex Food and Energy MoM	01/23/2020	08:30 AM	Continuing Claims	01/30/2020	08:30 AM	GDP Price Index
01/15/2020	08:30 AM	PPI Ex Food, Energy, Trade MoM	01/23/2020	09:45 AM	Bloomberg Consumer Comfort	01/31/2020	08:30 AM	PCE Deflator MoM
01/16/2020	08:30 AM	Export Price Index MoM	01/24/2020	09:45 AM	Markit US Manufacturing PMI	01/31/2020	08:30 AM	PCE Deflator YoY
01/16/2020	08:30 AM	Export Price Index YoY	01/24/2020	09:45 AM	Markit US Services PMI	01/31/2020	08:30 AM	PCE Core Deflator YoY
01/16/2020	08:30 AM	Import Price Index MoM	01/24/2020	09:45 AM	Markit US Composite PMI	01/31/2020	09:45 AM	MNI Chicago PMI

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

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