



Monthly Market Review

“New Year, New Beginning?”

Economic Highlights

- 2020 was a seminal and tragic year. The coronavirus pandemic ravaged the global economy infecting over 85 million people and killing nearly two million. Governments implemented lockdown measures and injected – alongside their central banks – unprecedented monetary and fiscal stimulus to try to immunize their pandemic-plagued economies. Fueled by monetary and fiscal support, financial markets demonstrated impressive resilience. Though the pandemic has ruptured the fabric of normalcy, optimism in the new year hinges on the success of a global vaccination program.
- While the results of the presidential election are now sealed, the violence on capitol hill has thrown the current political environment even deeper into turmoil.
- After months of significant recovery, the U.S. labor market weakened substantially as the U.S. economy lost 140,000 jobs in December. Driven by COVID-19-induced losses in leisure and hospitality, the unemployment rate held at 6.7%. There were nearly nine million fewer people employed in December than a year ago, and 24% of those employed worked remotely or worked from home during the month.
- American consumers cut back spending on both goods and services in November. Meanwhile, personal income was dragged down as government loan programs ended and unemployment insurance and other social programs expired. With income falling more than spending, the savings rate slipped to 12.9% in November, from 13.6% in the prior month, albeit still notably elevated from a historical perspective.
- After months of wrangling, Congress finally passed a \$900 billion economic relief package, including new individual taxpayer stimulus payments, expanded unemployment benefits, support for small businesses and schools, and resources for vaccine efforts.
- The Federal Reserve (Fed) ended the year by affirming its zero-rate monetary policy and its commitment that monetary policy will continue to support the economy. That support will continue until the recovery is complete and the economy achieves maximum employment and inflation consistent with the Fed's new 2% average over time. Market indicators are for short-term interest rates to stay near zero for the foreseeable future.

Bond Markets

- The U.S. Treasury yield curve steepened modestly in December as rates on 10- and 30-year maturities rose by seven to eight basis points (bps), while shorter-term rates remained anchored near zero.

- As a result, muted returns of shorter-maturity U.S. Treasuries exceeded the negative returns of those U.S. Treasuries with longer maturities. In December, the 3-month and 2-year Treasury benchmarks generated returns of 0.01% and 0.07%, respectively, while the 10-year Treasury benchmark posted a return of -0.58%.
- Corporate, asset-backed and supranational issuance was quiet in December as issuers closed their books for the year. Nevertheless, corporate issuers enjoyed low borrowing rates during 2020, resulting in the largest issuance year on record.

Municipal Bond Market

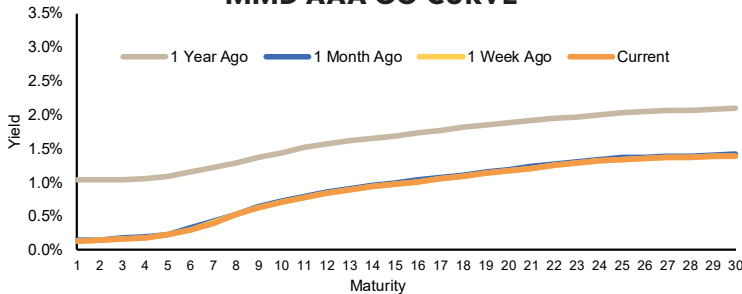
- Municipal new issuance fell in December by 28.7% to \$30.3 billion from \$42.5 billion the same month last year. Total municipal new issuance for 2020 was up 11.2% to \$474.0 billion for the year compared to the \$426.3 billion recorded for 2019, according to the Municipal Market Monitor (TM3) data.
- December experienced positive bond flows throughout the month and ended with net inflows totaling \$12.2 billion, following November's net inflows of \$8.2 billion, according to Investment Company Institute (ICI) data.
- In December, the Municipal Market Data (MMD) Index experienced a minor decrease in rates across the curve. The 1-year rate fell 1 bp to 0.13%, and the 3-year declined 1 bp to 0.16%. The 5-year rate dropped 1 bp to 0.22%, and the 10-year rate also decreased by 1 bp to 0.71%. On the long end, the 30-year rate dropped by 2 bps to 1.39%, according to TM3 data.
- During December, the 10-year MMD Single-A General Obligation (GO) Index credit spread and the Double-A GO Index credit spread both fell by 2 bps to end the year at 32 and 13 bps, respectively.
- Municipal-to-Treasury ratios had slight declines throughout the curve in December, with one outlier on the short end. The 2-year ratio increased to 115.7% from 102%, and the 5-year ratio fell to 60.9% from 63.5% last month. The intermediate-term ratio dropped to 62.2% from 68.2%, and the 10-year ratio decreased to 77.2% from 85.3% in November. The 30-year ratio declined to 84.2% from 89.5% in November, according to TM3 data.
- The Municipal curve was largely unchanged in December, with the AAA MMD 2- through 10-year slope remaining at 57 bps and the slope between the AAA MMD 2- through 30-year dropping to 125 bps from November's 126 bps.

| Spot Rates | | | | |
|------------|-----------------------|--------------------------|---------------------------|--------------------------|
| Term | Current 12/31/2020 | 1 Week Ago 12/24/2020 | 1 Month Ago 11/30/2020 | 1 Year Ago 12/31/2020 |
| 2-Year | 0.14 | 0.14 | 0.15 | 1.04 |
| 3-Year | 0.16 | 0.16 | 0.17 | 1.04 |
| 5-Year | 0.22 | 0.22 | 0.23 | 1.09 |
| 7-Year | 0.40 | 0.41 | 0.42 | 1.22 |
| 10-Year | 0.71 | 0.71 | 0.72 | 1.44 |
| 30-Year | 1.39 | 1.39 | 1.41 | 2.09 |

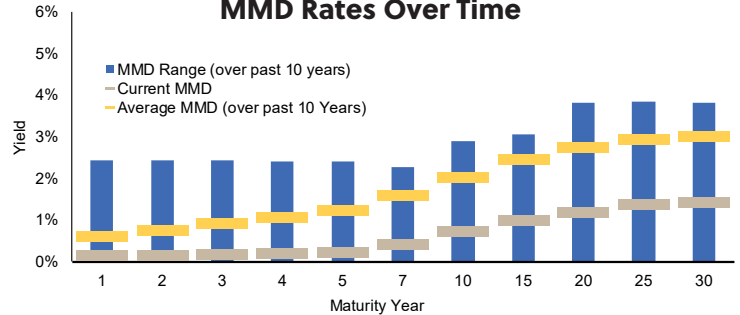
| Change in Spot Rate (basis points) | | | |
|------------------------------------|--------------------------|---------------------------|--------------------------|
| Term | 1 Week Ago 12/24/2020 | 1 Month Ago 11/30/2020 | 1 Year Ago 12/31/2020 |
| 2-Year | 0 | -1 | -90 |
| 3-Year | 0 | -1 | -88 |
| 5-Year | 0 | -1 | -87 |
| 7-Year | -1 | -2 | -82 |
| 10-Year | 0 | -1 | -73 |
| 30-Year | 0 | -2 | -70 |

| Market Rates | | | |
|--------------|------------|---------------|----------------|
| Term | MMD AAA GO | U.S. Treasury | Muni Swap Rate |
| 2-Year | 0.14% | 0.12% | 0.15% |
| 3-Year | 0.16% | 0.17% | 0.21% |
| 5-Year | 0.22% | 0.36% | 0.41% |
| 7-Year | 0.40% | 0.65% | 0.61% |
| 10-Year | 0.71% | 0.92% | 0.86% |
| 30-Year | 1.39% | 1.65% | 1.39% |

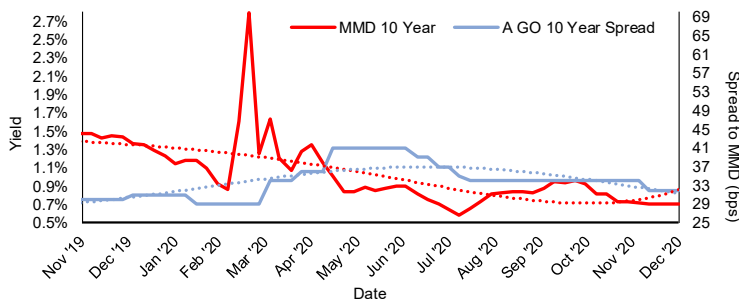
MMD AAA GO CURVE



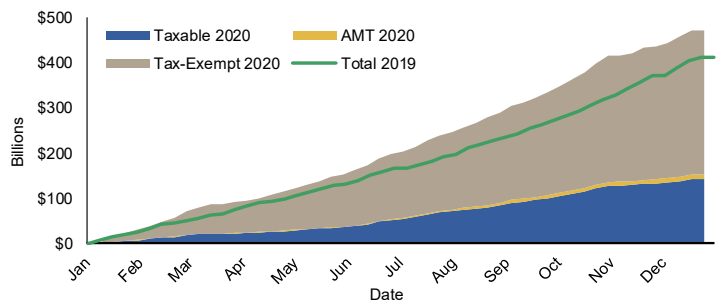
MMD Rates Over Time



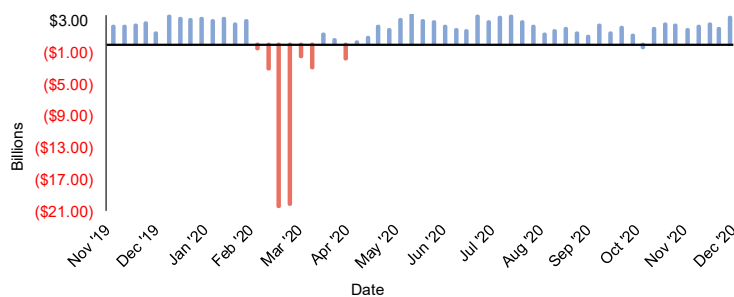
Rate and Spread Movement



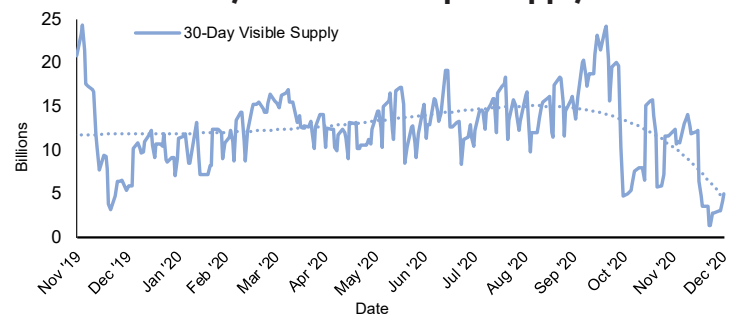
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

| Date | Time | Statistic | Date | Time | Statistic | Date | Time | Statistic |
|------------|----------|---|------------|----------|---|------------|----------|----------------------------------|
| 01/12/2021 | 06:00 AM | NFIB Small Business Optimism | 01/15/2021 | 08:30 AM | Retail Sales Ex Auto and Gas | 01/26/2021 | 09:00 AM | S&P CoreLogic CS 20-City YoY NSA |
| 01/12/2021 | 10:00 AM | JOLTS Job Openings | 01/15/2021 | 08:30 AM | Retail Sales Control Group | 01/26/2021 | 09:00 AM | S&P CoreLogic CS 20-City MoM SA |
| 01/13/2021 | 07:00 AM | MBA Mortgage Applications | 01/15/2021 | 09:00 AM | Bloomberg Jan. United States Economic Sur | 01/26/2021 | 10:00 AM | Conf. Board Present Situation |
| 01/13/2021 | 08:30 AM | CPI MoM | 01/15/2021 | 10:00 AM | U. of Mich. Expectations | 01/26/2021 | 10:00 AM | Richmond Fed Manufact. Index |
| 01/13/2021 | 08:30 AM | CPI Ex Food and Energy MoM | 01/15/2021 | 10:00 AM | U. of Mich. 1 Yr Inflation | 01/27/2021 | 07:00 AM | MBA Mortgage Applications |
| 01/13/2021 | 08:30 AM | CPI YoY | 01/15/2021 | 10:00 AM | U. of Mich. 5-10 Yr Inflation | 01/27/2021 | 08:30 AM | Durable Goods Orders |
| 01/13/2021 | 08:30 AM | CPI Ex Food and Energy YoY | 01/19/2021 | 04:00 PM | Net Long-term TIC Flows | 01/28/2021 | 08:30 AM | Advance Goods Trade Balance |
| 01/13/2021 | 02:00 PM | U.S. Federal Reserve Releases Beige Book | 01/20/2021 | 07:00 AM | MBA Mortgage Applications | 01/28/2021 | 08:30 AM | Retail Inventories MoM |
| 01/14/2021 | 08:30 AM | Revisions: Philadelphia Fed Manufacturing Surve | 01/20/2021 | 10:00 AM | NAHB Housing Market Index | 01/28/2021 | 08:30 AM | Wholesale Inventories MoM |
| 01/14/2021 | 08:30 AM | Initial Jobless Claims | 01/21/2021 | 08:30 AM | Building Permits | 01/29/2021 | 08:30 AM | Employment Cost Index |
| 01/14/2021 | 08:30 AM | Import Price Index MoM | 01/21/2021 | 08:30 AM | Housing Starts | 01/29/2021 | 08:30 AM | Real Personal Spending |
| 01/14/2021 | 08:30 AM | Continuing Claims | 01/21/2021 | 08:30 AM | Housing Starts MoM | 01/29/2021 | 08:30 AM | PCE Deflator MoM |
| 01/14/2021 | 09:45 AM | Bloomberg Consumer Comfort | 01/21/2021 | 08:30 AM | Initial Jobless Claims | 01/29/2021 | 10:00 AM | U. of Mich. Expectations |
| 01/15/2021 | 08:30 AM | PPI Final Demand MoM | 01/22/2021 | 10:00 AM | Existing Home Sales MoM | 01/29/2021 | 10:00 AM | U. of Mich. 1 Yr Inflation |
| 01/15/2021 | 08:30 AM | PPI Ex Food and Energy MoM | 01/25/2021 | 08:30 AM | Chicago Fed Nat Activity Index | 01/29/2021 | 10:00 AM | U. of Mich. 5-10 Yr Inflation |

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

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