



Monthly Market Review

Economic Highlights

- Bond returns for the first half of the year were strong. Equity returns were even stronger. The recent trend of rising bond prices AND rising stock prices in the face of declining economic growth, a weaker outlook for corporate earnings and rising trade tensions doesn't match the usual pattern of market behavior. Something will eventually have to give. But what?
- The Federal Reserve (Fed) held short-term rates unchanged in June at the current target range of 2.25% to 2.50%. Fed Chair Jerome Powell acknowledged risks to the Fed's positive outlook that included ongoing trade disputes, global growth concerns, a messy Brexit, recent declines in business sentiment and investment, and increased risk of falling inflation. In light of these rising uncertainties, Powell said the Fed will "act as appropriate to sustain the expansion." The market now widely expects two-three Fed rate cuts in the second half of 2019, with the first cut expected at the end of July.
- The final release of first quarter U.S. gross domestic product showed growth unchanged at a 3.1% annual rate and continues to signal a seemingly resilient U.S. economy. While growth concerns are focused abroad, most notably in the Eurozone and China, they have yet to spill over to our domestic shores just yet.
- All eyes, including those of Fed policy makers, are on lackluster inflation. The Consumer Price Index (CPI) indicates inflation near 2%, but the Fed's preferred inflation gauge – the Personal Consumption Expenditure (PCE) Price Index – has risen only 1.6% over the past year. Soft inflation readings will give the Fed room to ease monetary conditions without the worry of an inflation spike.
- The June jobs report showed strength in the labor market. The economy added 224,000 new jobs in June, outpacing expectations and bouncing back from disappointing growth of only 75,000 jobs in May. The unemployment rate ticked slightly higher to 3.7% as the labor force participation rate also increased 10 basis points (bps) to 62.9%.

Bond Markets

U.S. Treasury yields declined across the entire curve in June, with maturities under a year falling more (down 20 to 25 bps) than those between one and 10 years (down 10 to 15 bps). Short-term yields are closely tied to the expected near-term cut in the fed funds rate.

- As a result, the spread between 10-year and 3-month Treasury securities shifted modestly, but the yield curve remains inverted out to 10 years.

- Most U.S. Treasury maturities ended the quarter near 18-month lows, driving strong monthly, quarterly and year-to-date bond market returns. Longer-duration strategies benefit most. For example, the 1-year and 2-year Constant Maturity U.S. Treasury Indices returned 0.40% and 0.51%, respectively, for the month. Meanwhile, the 5-year and 10-year indices generated returns of 1.00% and 1.44%, respectively.
- Credit spreads narrowed in June after a temporary widening in May. This led corporate sector returns to outpace Treasury returns by a solid margin.

Municipal Bond Market

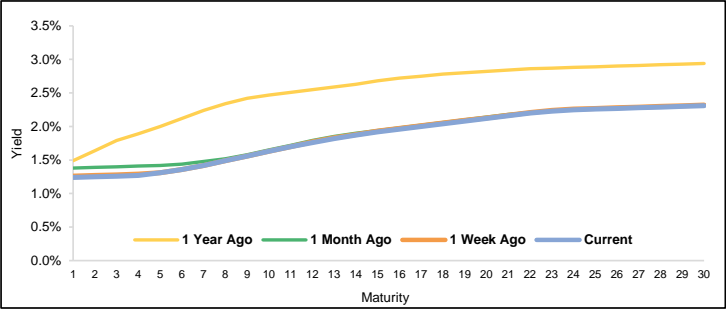
- Municipal new issuance increased in June by 4.8% to \$34.99 billion from \$33.4 billion the same month last year. Year-to-date municipal new issuance is up 1.9% to \$168.8 billion for 2019 from \$165.7 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- June experienced positive bond flows throughout the month and ended with net inflows totaling \$6.85 billion, following May's net inflows of \$8.54 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index saw declining rates across the yield curve in June. The one-year and three-year rate fell 14 bps to 1.24% and 1.26%, respectively. The five-year rate declined 11 bps to 1.31%, while the 10-year rate decreased 2 bps to 1.63%. On the long end, the 30-year rate dropped 1 bp to 2.31%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread and the Double-A GO Index credit spread remained unchanged at 33 bps and 12 bps, respectively, according to TM3 data.
- In June, Municipal-to-Treasury ratios experienced rising rates across the yield curve. The two-year ratio increased to 71.8% from 71.4% in May, and the five-year ratio rose to 74.4% from 73.5%. The intermediate-term ratio rose to 75.9% from 72.6% and the 10-year ratio increased to 81.5% from 77.0%. The 30-year ratio rose to 91.3% from 90.3%, according to TM3 data.
- The Municipal curve steepened in June with the AAA MMD 2-year/10-year slope rising to 38 bps from 26 bps in May, and the AAA MMD 2-year/30-year slope increasing to 106 bps from May's 93 bps.

Spot Rates				
	Current 6/28/2019	1 Week Ago 6/21/2019	1 Month Ago 5/31/2019	1 Year Ago 6/28/2018
2-Year	1.25	1.27	1.39	1.64
3-Year	1.26	1.28	1.40	1.79
5-Year	1.31	1.31	1.42	2.00
7-Year	1.42	1.42	1.48	2.24
10-Year	1.63	1.63	1.65	2.47
30-Year	2.31	2.32	2.32	2.94

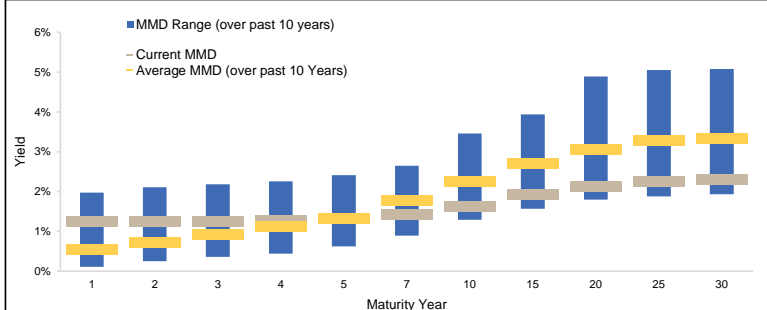
Change in Spot Rate (basis points)			
	1 Week Ago 6/21/2019	1 Month Ago 5/31/2019	1 Year Ago 6/28/2018
2-Year	-2	-14	-39
3-Year	-2	-14	-53
5-Year	0	-11	-69
7-Year	0	-6	-82
10-Year	0	-2	-84
30-Year	-1	-1	-63

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.25%	1.76%	1.15
3-Year	1.26%	1.71%	1.12
5-Year	1.31%	1.77%	1.16
7-Year	1.42%	1.88%	1.26
10-Year	1.63%	2.01%	1.40
30-Year	2.31%	2.53%	1.77

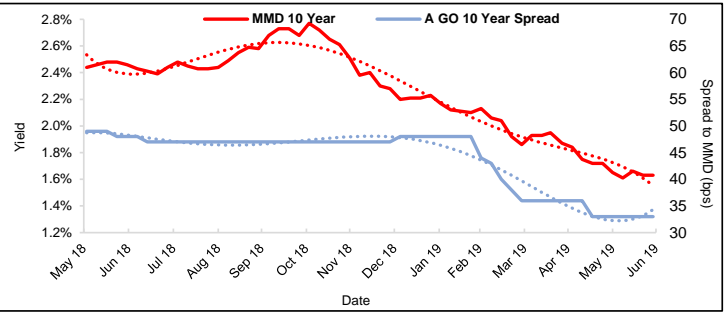
MMD AAA GO Curve



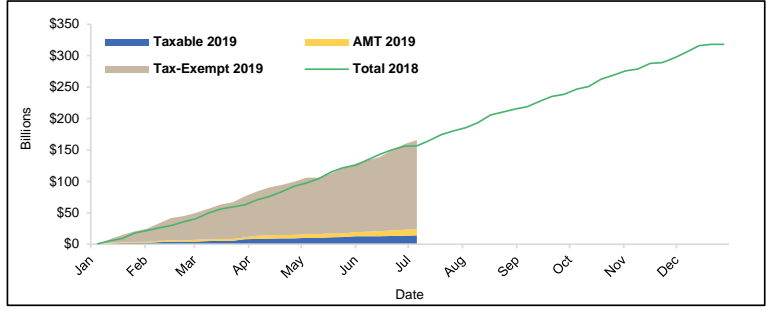
MMD Rates Over Time



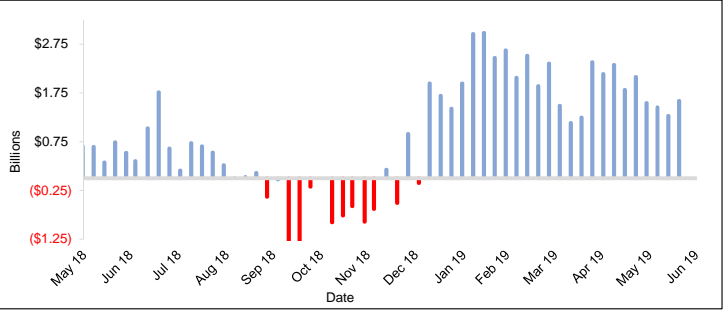
Rate and Spread Movement



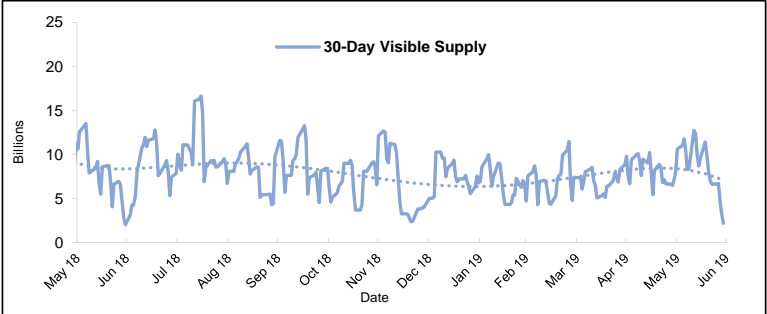
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
07/08/2019	03:00 PM	Consumer Credit	07/16/2019	04:00 PM	Total Net TIC Flows	07/24/2019	09:45 AM	Markit US Composite PMI
07/09/2019	06:00 AM	NFIB Small Business Optimism	07/17/2019	07:00 AM	MBA Mortgage Applications	07/24/2019	10:00 AM	New Home Sales
07/09/2019	10:00 AM	JOLTS Job Openings	07/17/2019	08:30 AM	Housing Starts	07/24/2019	10:00 AM	New Home Sales MoM
07/10/2019	07:00 AM	MBA Mortgage Applications	07/17/2019	08:30 AM	Housing Starts MoM	07/25/2019	08:30 AM	Durable Goods Orders
07/10/2019	10:00 AM	Wholesale Trade Sales MoM	07/18/2019	08:30 AM	Philadelphia Fed Business Outlook	07/25/2019	08:30 AM	Durables Ex Transportation
07/10/2019	10:00 AM	Wholesale Inventories MoM	07/18/2019	08:30 AM	Initial Jobless Claims	07/25/2019	08:30 AM	Cap Goods Ship Nondef Ex Air
07/10/2019	02:00 PM	FOMC Meeting Minutes	07/18/2019	08:30 AM	Continuing Claims	07/26/2019	08:30 AM	GDP Price Index
07/11/2019	08:30 AM	CPI MoM	07/19/2019	10:00 AM	U. of Mich. Expectations	07/26/2019	08:30 AM	Core PCE QoQ
07/11/2019	08:30 AM	CPI Ex Food and Energy MoM	07/19/2019	10:00 AM	U. of Mich. 1 Yr Inflation	07/29/2019	10:30 AM	Dallas Fed Manf. Activity
07/11/2019	08:30 AM	CPI YoY	07/19/2019	10:00 AM	U. of Mich. 5-10 Yr Inflation	07/30/2019	08:30 AM	Personal Income
07/12/2019	08:30 AM	PPI Ex Food and Energy YoY	07/22/2019	08:30 AM	Chicago Fed Nat Activity Index	07/30/2019	08:30 AM	Personal Spending
07/12/2019	08:30 AM	PPI Ex Food, Energy, Trade YoY	07/23/2019	09:00 AM	FHFA House Price Index MoM	07/30/2019	08:30 AM	Real Personal Spending
07/12/2019	09:45 AM	Bloomberg July U.S. Economic Survey	07/23/2019	10:00 AM	Richmond Fed Manufact. Index	07/30/2019	08:30 AM	PCE Deflator MoM
07/15/2019	08:30 AM	Empire Manufacturing	07/23/2019	10:00 AM	Existing Home Sales	07/30/2019	10:00 AM	Conf. Board Expectations
07/16/2019	08:30 AM	Import Price Index MoM	07/23/2019	10:00 AM	Existing Home Sales MoM	07/31/2019	07:00 AM	MBA Mortgage Applications

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of June 30, 2019.

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