



Monthly Market Review

“Summer dreams ripped at the seams.”

Economic Highlights

- As summer began, a resurgence of COVID-19 cases spread across parts of the U.S., threatening the economic recovery, summer's lure and the economic consequences of prolonged lockdowns. This prompted U.S. states to reopen — perhaps prematurely. Whether a continuation of the first wave or the emergence of a new wave, one thing is certain: COVID-19 remains a rising public health threat, and the U.S. is struggling in a rip tide of uncertainty.
- In his semiannual monetary policy report to Congress in mid-June, Federal Reserve (Fed) chair Jerome Powell painted a guarded view of the economy, noting “the levels of output and employment remain far below their pre-pandemic levels, and significant uncertainty remains about the timing and strength of the recovery.” Meanwhile, the Fed's balance sheet grew to a historic high of \$7.1 trillion as the central bank added to its holdings of open market securities, and the Fed continued to expand its use of liquidity and credit market support programs.
- The U.S. economy is now in its first recession in more than a decade, with gross domestic product falling by an annualized 5% in the first quarter, ending the longest period of economic expansion on record. Chair Powell suggested that the second-quarter decline “is likely to be the most severe on record.”
- Despite these elements, the U.S. labor market rebounded strongly in back-to-back months. June's non-farm payrolls rose by 4.8 million, while the unemployment rate fell to 11.1% — marked improvement, but the unemployment rate remains far above pre-COVID-19 levels.
- Retail sales rebounded nearly 18% in May after cratering 8% and 15% in March and April, respectively. Similarly, on modest reopenings of the economy throughout the country, consumer confidence recovered sharply from five-year lows in March.

Bond Markets

- The U.S. Treasury yield curve drifted marginally lower by just one or two basis points in the month. They remain at historically low levels with the 10-year benchmark ending the month at 0.66%.
- The U.S. Treasury continued to borrow at a record pace to fund the unprecedented series of stimulus packages by selling nearly a half-trillion of bills and bonds. The federal budget deficit in June alone was nearly equivalent to the deficit for the entire prior fiscal year.
- Given low and very stable rates, Treasury returns were muted in June, with intermediate-term maturities outperforming both their shorter and longer counterparts by only small margins. For June, the 3-month Treasury Bill returned 0.01%, while the 5-year and 10-year Treasury indexes returned 0.17% and -0.01%, respectively.

- Investment-grade (IG) corporate bonds generated strong excess returns as spreads tightened to near pre-crisis levels. IG companies issued \$178 billion of debt in June as the Fed's backstop to purchase corporate notes became an opportunity for issuers to tap sources of liquidity. Market appetite for both new and secondary inventory remained strong, helping to pressure credit spreads to narrow.
- As most all non-U.S. Treasury sectors again benefited from a continued retracement of spreads from peak crisis levels in mid-March, sector diversification helped to buoy portfolio performance in June.

Municipal Bond Market

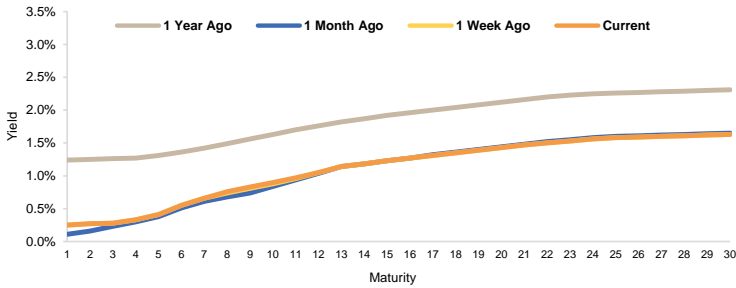
- Municipal new issuance increased in June by 24.6% to \$45.8 billion from \$36.7 billion the same month last year. Year-to-date municipal new issuance is up 14.6% to \$198.7 billion for 2020 from \$173.3 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- June experienced positive bond fund flows throughout the month and ended with net inflows totaling \$13.2 billion, following May's net inflows of \$7.0 billion, according to Investment Company Institute (ICI) data.
- In June, the Municipal Market Data (MMD) Index experienced an increase throughout most of the yield curve. On the short-end, the 1-year rate rose 14 basis points (bps) to 0.25%, and the 3-year rate increased 5 bps to 0.28%. The 5-year rate rose 3 bps to 0.41%. On the long-end, the 10-year rate increased 6 bps to 0.90% and the 30-year rate fell slightly by 2 bps to 1.63%, according to Municipal Market Monitor (TM3) data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread and the Double-A GO Index credit spread remained unchanged in June at 41 bps and 15 bps, respectively, according to TM3 data.
- Municipal-to-Treasury ratios rose in June, with one exception on the long-end. The 2-year ratio increased to 177.6% from 101.3%, and the 5-year ratio rose to 143.4% from 126.7%. The intermediate-term ratio increased to 135.0% from 124.5%, and the 10-year ratio rose to 136.4% from 130.0% in June. The 30-year ratio decreased to 114.8% from 116.2%, according to TM3 data.
- The Municipal curve tightened in June with the AAA MMD 2- through 10-year slope dropping to 63 bps, and the slope between the AAA MMD 2- through 30-year falling to 136 bps from May's 149 bps.

Spot Rates				
Term	Current 6/30/2020	1 Week Ago 6/23/2020	1 Month Ago 5/29/2020	1 Year Ago 6/28/2019
2-Year	0.27	0.27	0.16	1.25
3-Year	0.28	0.28	0.23	1.26
5-Year	0.41	0.41	0.38	1.31
7-Year	0.66	0.66	0.61	1.42
10-Year	0.90	0.88	0.84	1.63
30-Year	1.63	1.63	1.65	2.31

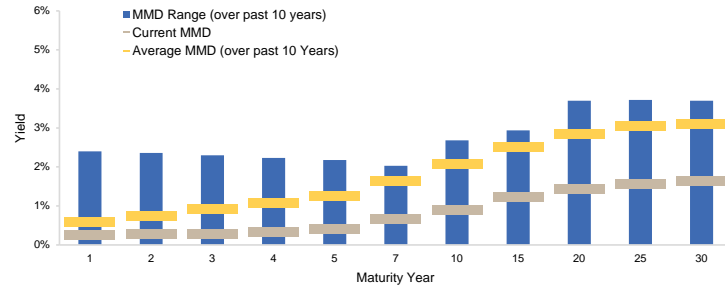
Change in Spot Rate (basis points)			
	1 Week Ago 6/23/2020	1 Month Ago 5/29/2020	1 Year Ago 6/28/2019
2-Year	0	11	-98
3-Year	0	5	-98
5-Year	0	3	-90
7-Year	0	5	-76
10-Year	2	6	-73
30-Year	0	-2	-68

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.27%	0.15%	0.15
3-Year	0.28%	0.17%	0.16
5-Year	0.41%	0.29%	0.25
7-Year	0.66%	0.49%	0.37
10-Year	0.90%	0.66%	0.53
30-Year	1.63%	1.41%	0.85

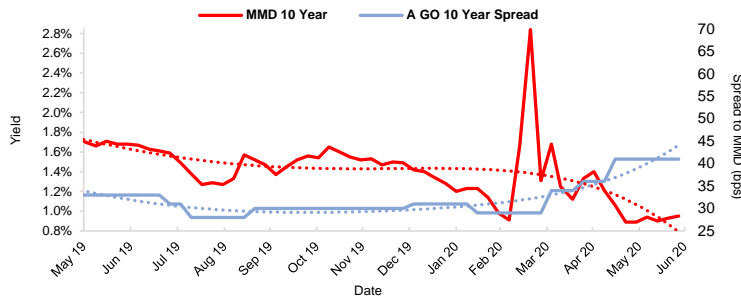
MMD AAA GO Curve



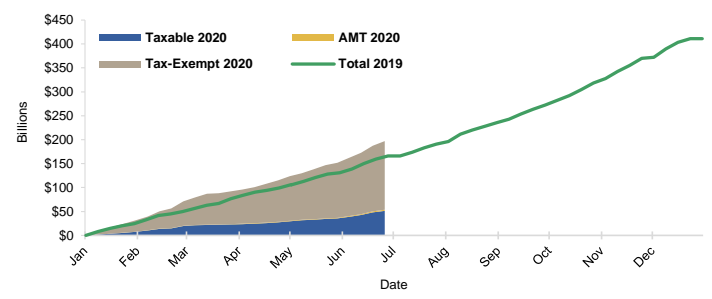
MMD Rates Over Time



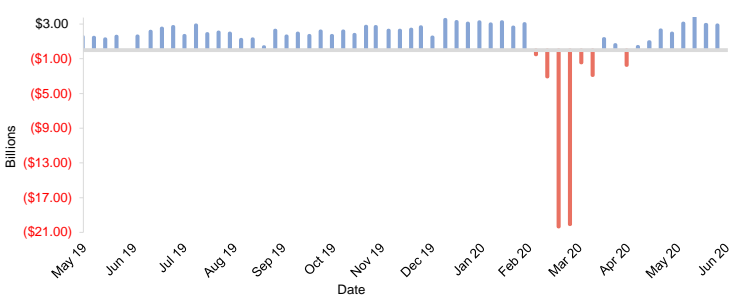
Rate and Spread Movement



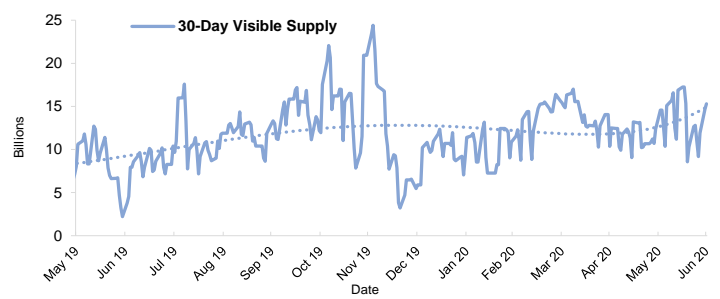
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
07/13/2020	02:00 PM	Monthly Budget Statement	07/17/2020	10:00 AM	U. of Mich. Sentiment	07/27/2020	10:30 AM	Dallas Fed Manf. Activity
07/14/2020	06:00 AM	NFIB Small Business Optimism	07/17/2020	10:00 AM	U. of Mich. Current Conditions	07/28/2020	09:00 AM	S&P CoreLogic CS 20-City MoM SA
07/14/2020	08:30 AM	Real Avg Weekly Earnings YoY	07/17/2020	10:00 AM	U. of Mich. Expectations	07/28/2020	09:00 AM	S&P CoreLogic CS 20-City YoY NSA
07/14/2020	08:30 AM	Real Avg Hourly Earning YoY	07/21/2020	08:30 AM	Chicago Fed Nat Activity Index	07/28/2020	10:00 AM	Conf. Board Present Situation
07/15/2020	07:00 AM	MBA Mortgage Applications	07/22/2020	07:00 AM	MBA Mortgage Applications	07/28/2020	10:00 AM	Conf. Board Expectations
07/15/2020	08:30 AM	Import Price Index MoM	07/22/2020	09:00 AM	FHFA House Price Index MoM	07/29/2020	08:30 AM	Advance Goods Trade Balance
07/15/2020	09:15 AM	Capacity Utilization	07/22/2020	10:00 AM	Existing Home Sales	07/29/2020	08:30 AM	Wholesale Inventories MoM
07/15/2020	09:15 AM	Manufacturing (SIC) Production	07/23/2020	09:45 AM	Bloomberg Economic Expectations	07/29/2020	08:30 AM	Retail Inventories MoM
07/15/2020	02:00 PM	U.S. Federal Reserve Releases Beige Book	07/23/2020	09:45 AM	Bloomberg Consumer Comfort	07/29/2020	02:00 PM	FOMC Rate Decision (Lower Bound)
07/16/2020	08:30 AM	Philadelphia Fed Business Outlook	07/23/2020	10:00 AM	Leading Index	07/29/2020	02:00 PM	Interest Rate on Excess Reserves
07/16/2020	08:30 AM	Initial Jobless Claims	07/24/2020	09:45 AM	Markit US Manufacturing PMI	07/30/2020	08:30 AM	Revisions: GDP
07/16/2020	08:30 AM	Continuing Claims	07/24/2020	09:45 AM	Markit US Services PMI	07/30/2020	08:30 AM	Initial Jobless Claims
07/16/2020	04:00 PM	Net Long-term TIC Flows	07/24/2020	09:45 AM	Markit US Composite PMI	07/31/2020	08:30 AM	PCE Deflator YoY
07/16/2020	04:00 PM	Total Net TIC Flows	07/24/2020	10:00 AM	New Home Sales MoM	07/31/2020	08:30 AM	Employment Cost Index
07/17/2020	08:30 AM	Building Permits	07/27/2020	08:30 AM	Durable Goods Orders	07/31/2020	10:00 AM	U. of Mich. Sentiment

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of June 30, 2020.

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