



Monthly Market Review

"A familiar conviction that life is beginning over again."

Economic Highlights

- The U.S. economy continued to recover from the COVID-19 recession as the virus infection rate declined from early 2021, while fiscal and monetary stimulus set the pace. Most states are fully reopened which should drive strong gross domestic product (GDP) growth in the second half of 2021.
- U.S. job growth accelerated in June. The economy added 850,000 jobs, with strong gains in leisure and hospitality amid the economy's reopening. So far in 2021, the service sector has led the job recovery, with leisure and hospitality accounting for almost half of the year's payroll gains. The unemployment rate rose slightly to 5.9%.
- Retail sales declined in May following stimulus-fueled spending in earlier months. But, total sales over the trailing three months were 36% more than a year ago. The details reflected the ongoing shift in consumer preferences away from goods and toward services as the economy reopens. Meanwhile, consumer sentiment has improved considerably since the start of this year.
- Inflation continues to run hot, with substantial price increases in energy, housing, commodities and consumer goods. The June Consumer Price Index posted its largest one-month increase since 2008, rising 5.4% over the past year.
- Federal Reserve (Fed) policymakers signaled an intention to accelerate a possible post-pandemic interest rate rise as the U.S. makes strong progress on vaccination efforts and inflation heats up. In its updated June projections, 13 of 18 Fed officials indicated they expect to lift short-term rates by the end of 2023, up from only seven in March. Furthermore, seven officials expect rates to rise by the end of 2022 and none projected any rate changes this year. More immediately, the Fed may soon begin discussing the timing of tapering its large-scale bond purchase program.

Bond Markets

- Despite higher inflation and the possible acceleration of Fed actions to tighten monetary policy, long-term Treasury yields declined — the 10-year Treasury fell 13 basis points (bps) (0.13%) — and the yield curve flattened over the month. The market is grappling with various uncertainties, including concerns about the Delta COVID variant, downward growth momentum, short covering in the bond market, foreign demand, a more hawkish Fed and reduced expectations for additional fiscal stimulus.
- Short-term Treasury yields rose from near zero in response to the Fed's five bps increase in rates, paying for excess reserves and overnight repurchase agreements. As a result, the Fed's overnight reverse repurchase agreement facility surged to a record high of \$991 billion at quarter-end. The pull-forward of the Fed rate hike expectations into 2023 pushed the yield on the 2-year Treasury up by 11 bps to 0.25%.

- The rise in short-term government bond yields resulted in negative monthly returns on short-term benchmarks, while the sharp fall in yields on longer-dated Treasuries led to strong absolute returns. The 3-month Treasury index performance was essentially flat in June, while the 10-year Treasury index advanced 1.5%.

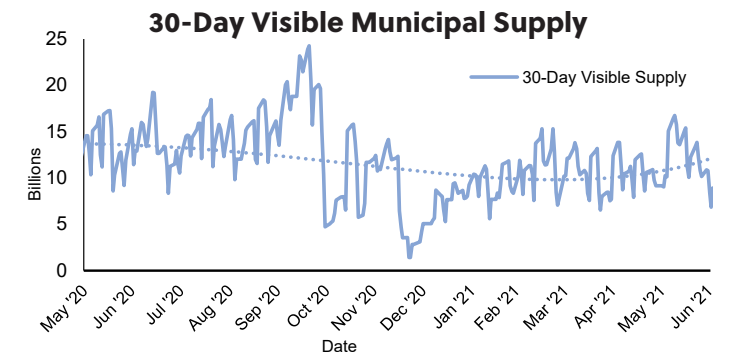
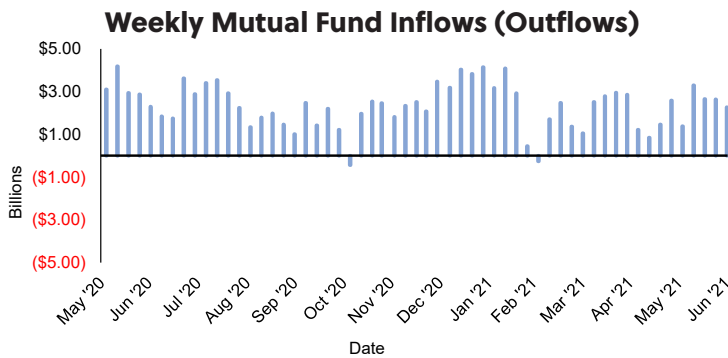
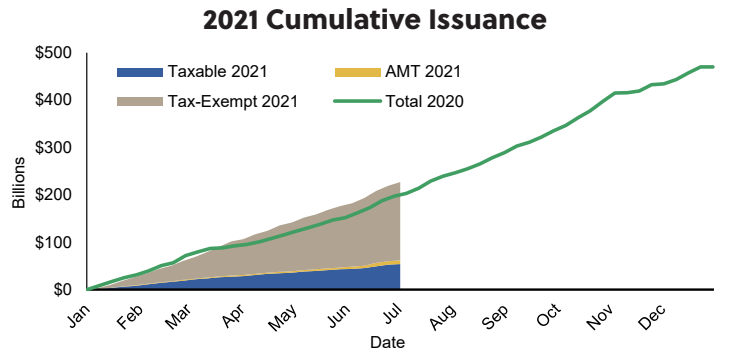
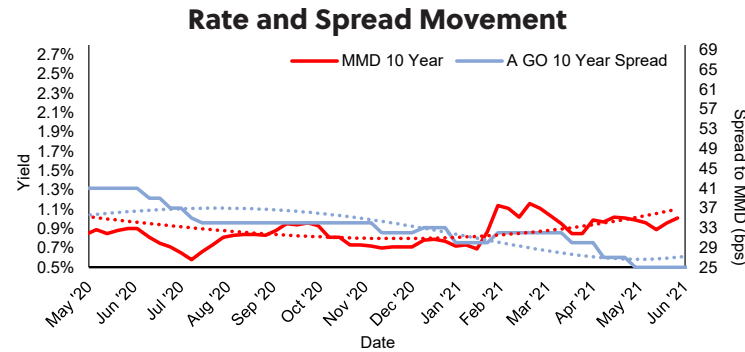
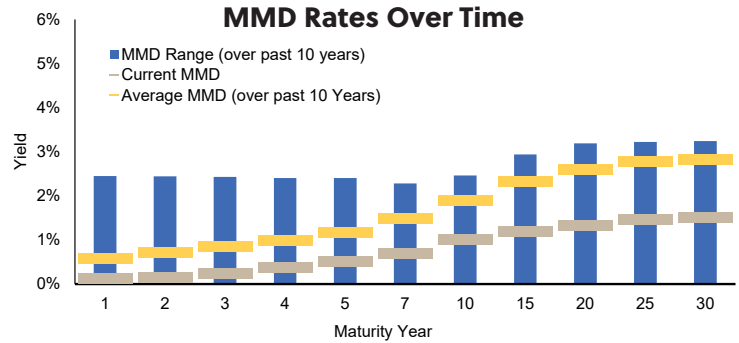
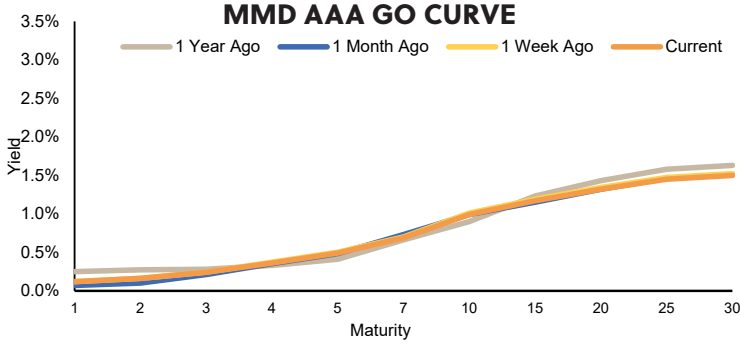
Municipal Bond Market

- Municipal new issuance fell in June by 8.9% to \$47.7 billion from \$52.4 billion the same month last year. Total municipal new issuance for 2021 was up 8.5% to \$228.2 billion for the year compared to the \$210.4 billion recorded for 2020, according to the Municipal Market Monitor (TM3) data.
- June experienced positive bond flows throughout the month and ended with net inflows totaling \$12.2 billion, following May's net inflows of \$6.5 billion, according to Investment Company Institute (ICI) data.
- In June, the Municipal Market Data (MMD) Index experienced mixed changes in rates across the curve. The 1-year rate rose 5 bps to 0.12%, while the 3-year rate increased 3 bps to 0.24%. The 5-year rate increased 1 bps to 0.49% from 0.48%, and the 10-year rate remained unchanged at 0.99%. On the long end, the 30-year rate declined to 1.50% from 1.51%, in June, according to TM3 data.
- During June, the 10-year MMD Single-A General Obligation (GO) Index credit spread remained constant at 25 bps, and the Double-A GO Index credit spread also remained constant at 13 bps.
- The Municipal-to-Treasury ratios experienced mixed changes throughout the curve in June. The 2-year ratio decreased to 64.3% from 69.0%, and the 5-year ratio dropped to 56.0% from 59.9% last month. The intermediate-term ratio decreased to 56.7% from 57.8%, and the 10-year ratio increased to 68.5% from 62.1% in June. The 30-year ratio increased in June to 72.4% from 66.4% last month, according to TM3 data.
- The Municipal curve flattened in June, with the AAA MMD 2-through 10-year slope decreasing to 83 bps from 89 bps in May. The slope between the AAA MMD 2-through 30-year decreased to 134 bps from 141 bps in May.

Spot Rates				
Term	Current 6/30/2021	1 Week Ago 6/23/2021	1 Month Ago 5/31/2021	1 Year Ago 6/30/2020
2-Year	0.16	0.16	0.10	0.27
3-Year	0.24	0.24	0.21	0.28
5-Year	0.49	0.50	0.48	0.41
7-Year	0.69	0.70	0.73	0.66
10-Year	0.99	1.01	0.99	0.90
30-Year	1.50	1.52	1.51	1.63

Change in Spot Rate (basis points)			
Term	1 Week Ago 6/23/2021	1 Month Ago 5/31/2021	1 Year Ago 6/30/2020
2-Year	0	6	-11
3-Year	0	3	-4
5-Year	-1	1	8
7-Year	-1	-4	3
10-Year	-2	0	9
30-Year	-2	-1	-13

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.16%	0.25%	0.17%
3-Year	0.24%	0.46%	0.32%
5-Year	0.49%	0.89%	0.59%
7-Year	0.69%	1.24%	0.78%
10-Year	0.99%	1.47%	0.97%
30-Year	1.50%	2.09%	1.39%



Economic Calendar								
Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
07/13/2021	12:00 AM	CPI MoM	07/14/2021	08:30 AM	PPI Ex Food, Energy, Trade YoY	07/16/2021	08:30 AM	Retail Sales Ex Auto MoM
07/13/2021	08:30 AM	CPI Ex Food and Energy MoM	07/14/2021	2:00 PM	U.S. Fed Releases Beige Book	07/16/2021	08:30 AM	Retail Sales Ex Auto and Gas
07/13/2021	08:30 AM	CPI YoY	07/15/2021	08:30 AM	Import Price Index MoM	07/16/2021	08:30 AM	Retail Sales Control Group
07/13/2021	08:30 AM	CPI Ex Food and Energy YoY	07/15/2021	08:30 AM	Import Price Index ex Petroleum MoM	07/16/2021	10:00 AM	Business Inventories
07/13/2021	08:30 AM	CPI Index NSA	07/15/2021	08:30 AM	Import Price Index YoY	07/16/2021	10:00 AM	U. of Mich. Sentiment
07/13/2021	08:30 AM	CPI Core Index SA	07/15/2021	08:30 AM	Export Price Index MoM	07/16/2021	10:00 AM	U. of Mich. Current Conditions
07/13/2021	08:30 AM	Real Avg Weekly Earnings YoY	07/15/2021	08:30 AM	Philadelphia Fed Business Outlook	07/16/2021	10:00 AM	U. of Mich. Expectations
07/13/2021	08:30 AM	Real Avg Hourly Earning YoY	07/15/2021	08:30 AM	Export Price Index YoY	07/16/2021	10:00 AM	U. of Mich. 1 Yr Inflation
07/13/2021	2:00 PM	Monthly Budget Statement	07/15/2021	08:30 AM	Initial Jobless Claims	07/16/2021	10:00 AM	U. of Mich. 5-10 Yr Inflation
07/14/2021	07:00 AM	MBA Mortgage Applications	07/15/2021	08:30 AM	Continuing Claims	07/19/2021	10:00 AM	NAHB Housing Market Index
07/14/2021	08:30 AM	PPI Final Demand MoM	07/15/2021	08:30 AM	Industrial Production MoM	07/20/2021	08:30 AM	Building Permits MoM
07/14/2021	08:30 AM	PPI Ex Food and Energy MoM	07/15/2021	09:15 AM	Capacity Utilization	07/20/2021	08:30 AM	Building Permits
07/14/2021	08:30 AM	PPI Ex Food, Energy, Trade MoM	07/15/2021	09:15 AM	Manufacturing (SIC) Production	07/20/2021	08:30 AM	Housing Starts
07/14/2021	08:30 AM	PPI Final Demand YoY	07/15/2021	09:45 AM	Langer Consumer Comfort	07/20/2021	08:30 AM	Housing Starts MoM
07/14/2021	08:30 AM	PPI Ex Food and Energy YoY	07/16/2021	08:30 AM	Retail Sales Advance MoM	07/21/2021	07:00 AM	MBA Mortgage Applications

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of June 30, 2021.

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