



Monthly Market Review

Look beyond the rhetoric and...

Tough trade talk and tariffs could slow the economy. Trump's calls for easy money could move the Federal Reserve (Fed). Many investors see this as a win for bonds. Never mind if it calls into question how free the free market is.

Economic Highlights

- Trade talk and tariff disputes ruled the day in May as a new front in the trade war emerged with Mexico on top of unresolved disputes with China. This has begun to take its toll on economic conditions, triggering a slowdown in manufacturing activity and sharp declines in measures of CEO optimism.
- Second quarter U.S. gross domestic product (GDP) growth estimates are now in the 1.5%-2% range, far below the first quarter which was revised in May to 3.1% (vs. initial estimate of 3.2%).
- The World Bank reduced its global growth forecasts for both 2019 and 2020. Global growth in real GDP is now expected to be 2.6% in 2019 and 2.7% for 2020. Downward revisions were especially noteworthy for the Euro area and Emerging Market economies.
- The latest Fed-speak turned more dovish, revealing a shift in the Fed's stance on monetary policy from "patient" to "appropriate." At a recent conference, Fed Chair Jerome Powell acknowledged the consequences of escalating trade tensions and affirmed that the Fed will "act as appropriate to sustain the expansion." The market's expectation is now for two to three rate cuts by year end.
- Inflation pressures remain low. The Consumer Price Index (CPI) indicates inflation at 2%, while the Fed's preferred inflation gauge, the Personal Consumption Expenditure (PCE) Price Index, has weakened over the last several months and is now well below the Fed's target of 2%.
- The U.S. jobs report for May was a huge disappointment as non-farm payrolls grew by only 75,000, well below expectations of 175,000. Monthly job gains have averaged just 164,000 this year, compared with average gains of 223,000 per month in 2018. Wage growth slowed, but the labor market remains tight with the unemployment rate holding at 3.6%.

Bond Markets

- U.S. Treasury yields declined across the curve with the yield on longer maturities falling more than 30 basis points (bps) (0.30%) in May. Long maturity yields are now down more than 100 bps from their highs of last November.
- The yield curve reached its greatest level of inversion since 2007 as the spread between the 10-year and 3-month Treasuries reached -25 bps (-0.25%). The shorter-term Treasury Bill curve is also now inverted, reinforcing the market's expectation for a lower Fed rate

policy in the near term.

- As a result of falling yields, bond returns were very strong in May, with Treasury benchmarks generating some of their best monthly performance over the last five years. The increasing inversion also meant that longer duration indexes outperformed shorter ones. For example, the 2-year Treasury Index returned 0.77%, while the 10-year index returned 3.35% for the month.
- Investment grade corporate bonds, mortgage-backed securities and asset-backed securities all under-performed comparable Treasury securities in May as the unsettled economic outlook and rising market volatility took a toll on these sectors.

Municipal Bond Market

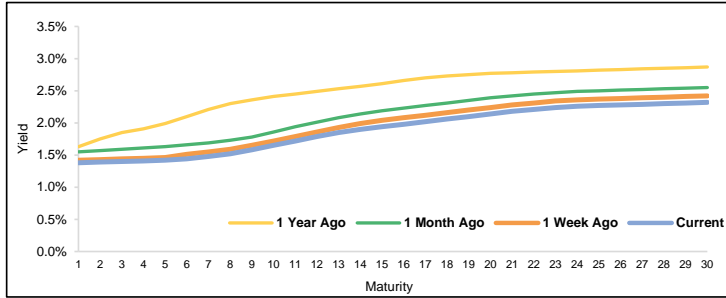
- Municipal new issuance fell in May by 20.6% to \$27.93 billion from \$35.19 billion the same month last year. Year-to-date municipal new issuance is up 0.2% to \$132.5 billion for 2019 from \$132.3 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- May experienced positive bond flows throughout the month and ended with net inflows totaling \$8.37 billion, following April's net inflows of \$6.26 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index saw declining rates across the yield curve in May. The one-year rate fell 17 bps to 1.38% while the three-year rate dropped 19 bps to 1.40%. The five-year rate also declined 21 bps to 1.42%. The 10-year rate decreased 21 bps to 1.65%. On the long end, the 30-year rate dropped 23 bps to 2.32%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread fell by 3 bps to 33 bps and the Double-A GO Index credit spread remained unchanged at 12 bps, according to TM3 data.
- In May, Municipal-to-Treasury ratios cheapened slightly across the yield curve. The two-year ratio increased to 71.4% from 69.2% in April, and the five-year ratio rose to 73.5% from 71.5%. The intermediate-term ratio rose to 72.6% from 70.7%, while the 10-year ratio increased to 77.0% from 74.3%. The 30-year ratio increased to 90.3% from 86.9%, according to TM3 data.
- The Municipal curve flattened in May with the AAA MMD 2-year/10-year slope falling to 26 bps from 29 bps in March, and the AAA MMD 2-year/30-year slope decreased to 93 bps from April's 98 bps.

Spot Rates				
	Current 5/31/2019	1 Week Ago 5/24/2019	1 Month Ago 4/30/2019	1 Year Ago 5/31/2018
2-Year	1.39	1.43	1.57	1.75
3-Year	1.40	1.44	1.59	1.85
5-Year	1.42	1.46	1.63	1.99
7-Year	1.48	1.55	1.69	2.21
10-Year	1.65	1.72	1.86	2.41
30-Year	2.32	2.42	2.55	2.87

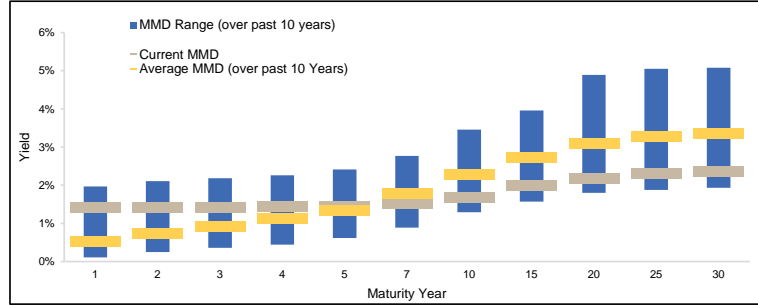
Change in Spot Rate (basis points)			
	1 Week Ago 5/24/2019	1 Month Ago 4/30/2019	1 Year Ago 5/31/2018
2-Year	-4	-18	-36
3-Year	-4	-19	-45
5-Year	-4	-21	-57
7-Year	-7	-21	-73
10-Year	-7	-21	-76
30-Year	-10	-23	-55

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.39%	1.92%	1.17
3-Year	1.40%	1.88%	1.15
5-Year	1.42%	1.91%	1.22
7-Year	1.48%	2.02%	1.32
10-Year	1.65%	2.13%	1.47
30-Year	2.32%	2.57%	1.83

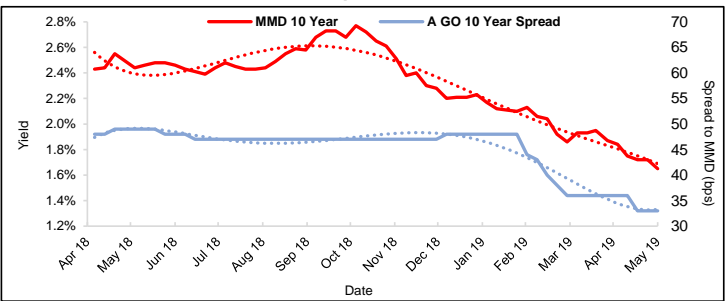
MMD AAA GO Curve



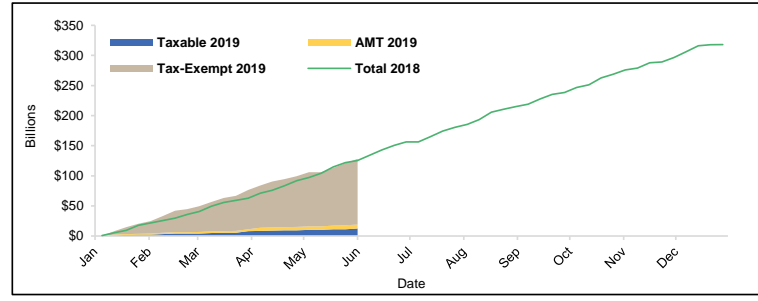
MMD Rates Over Time



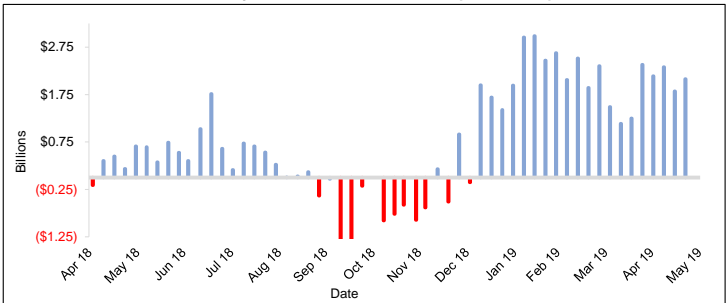
Rate and Spread Movement



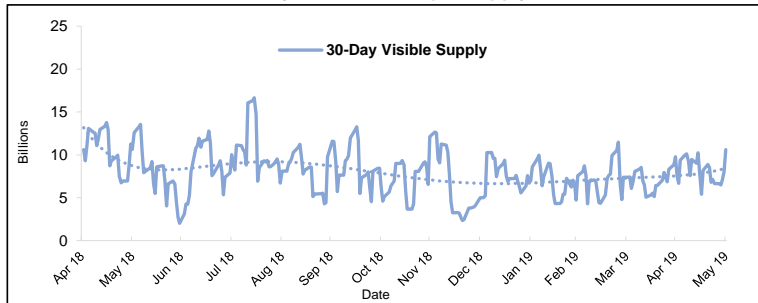
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
06/06/2019	08:30 AM	Trade Balance	06/12/2019	07:00 AM	MBA Mortgage Applications	06/18/2019	08:30 AM	Building Permits MoM
06/06/2019	09:45 AM	Bloomberg Consumer Comfort	06/12/2019	08:30 AM	CPI MoM	06/19/2019	07:00 AM	MBA Mortgage Applications
06/06/2019	12:00 AM	Household Change in Net Worth	06/12/2019	08:30 AM	CPI Ex Food and Energy MoM	06/19/2019	02:00 PM	FOMC Rate Decision (Upper Bound)
06/07/2019	08:30 AM	Change in Nonfarm Payrolls	06/12/2019	02:00 PM	Monthly Budget Statement	06/19/2019	02:00 PM	FOMC Rate Decision (Lower Bound)
06/07/2019	08:30 AM	Two-Month Payroll Net Revision	06/13/2019	08:30 AM	Import Price Index MoM	06/19/2019	02:00 PM	Interest Rate on Excess Reserves
06/07/2019	08:30 AM	Change in Private Payrolls	06/13/2019	08:30 AM	Import Price Index ex Petroleum MoM	06/20/2019	08:30 AM	Current Account Balance
06/07/2019	10:00 AM	Wholesale Trade Sales MoM	06/14/2019	08:30 AM	Retail Sales Control Group	06/21/2019	09:45 AM	Markit US Composite PMI
06/07/2019	10:00 AM	Wholesale Inventories MoM	06/14/2019	09:15 AM	Industrial Production MoM	06/21/2019	10:00 AM	Existing Home Sales
06/07/2019	03:00 PM	Consumer Credit	06/14/2019	09:15 AM	Manufacturing (SIC) Production	06/24/2019	10:30 AM	Dallas Fed Manf. Activity
06/10/2019	10:00 AM	JOLTS Job Openings	06/14/2019	10:00 AM	Business Inventories	06/25/2019	09:00 AM	FHFA House Price Index MoM
06/11/2019	06:00 AM	NFIB Small Business Optimism	06/17/2019	08:30 AM	Empire Manufacturing	06/25/2019	09:00 AM	S&P CoreLogic CS 20-City MoM SA
06/11/2019	08:30 AM	PPI Ex Food, Energy, Trade MoM	06/17/2019	10:00 AM	NAHB Housing Market Index	06/26/2019	08:30 AM	Wholesale Inventories MoM
06/11/2019	08:30 AM	PPI Final Demand YoY	06/17/2019	04:00 PM	Net Long-term TIC Flows	06/27/2019	08:30 AM	GDP Annualized QoQ
06/11/2019	08:30 AM	PPI Ex Food and Energy YoY	06/17/2019	04:00 PM	Total Net TIC Flows	06/27/2019	08:30 AM	Personal Consumption
06/11/2019	08:30 AM	PPI Ex Food, Energy, Trade YoY	06/18/2019	08:30 AM	Housing Starts	06/27/2019	08:30 AM	GDP Price Index

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

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