



Monthly Market Review

“We’re going to need a bigger helicopter.”

Economic Highlights

- The pandemic continues to drive the economy. A sharp drop in COVID-19 cases and an accelerated vaccine rollout boosted economic activity in the U.S. in February. With a newly approved vaccine from Johnson & Johnson and a unique partnership with Merck to support expanded manufacturing capacity, funded by the U.S. Department of Health and Human Services, President Biden promised “enough vaccine supply for every adult in America by the end of May” — a two-month acceleration of previous projections.
- The Biden Administration also made moves on other fronts: filling key cabinet positions, committing resources to the reunification of separated families, initiating a review of American supply chain risks, marshaling a \$1.9 trillion pandemic relief package through Congress, supporting voting rights reforms, and beginning efforts to address the need to invest in modern and sustainable American infrastructure.
- Consumer spending surged in January, led by a shift toward discretionary categories, after a disappointing December. Retail sales rose at the fastest pace in seven months, reflecting both the immediate impact of direct payments from the December COVID-19 \$900 billion relief package and pent-up consumer demand.
- Inflation expectations continued to rise as gauged by inflation breakeven rates derived from the difference between yields on fixed-rate Treasuries and those on Treasury Inflation-Protected Securities (TIPS) with comparable maturities. But actual measured inflation continued to lag behind the Federal Reserve’s (Fed) average target rate of 2%.
- In congressional testimony, Fed Chair Jerome Powell commented that “the economy is a long way from employment and inflation goals” and reaffirmed the Fed’s commitment to maintaining the accommodative monetary policy until the economy has recovered further from the pandemic. Near-zero interest rates and asset purchases remain in place for the foreseeable future.
- Chair Powell and other Fed governors seem to have shifted their focus on labor market conditions from narrow measures of jobs and the unemployment rate to broader labor market health measures. Though the U.S. economy added 379,000 jobs and the unemployment rate fell to 6.2% in February, the central bank is concerned that the total non-farm employment is nine million jobs lower than a year ago. Meanwhile, 18 million people are still collecting some form of unemployment benefits.
- The newest installment of a COVID-19 fiscal package, the American Rescue Plan, provides \$1.9 trillion of funding that includes \$1,400 stimulus checks to individuals, an extension of unemployment benefits, additional aid for small businesses and \$350 billion for state and local governments.

Bond Markets

- Bond market volatility surged over the month, and long-term interest rates rose as investors anticipate that strong growth will spur inflation. The result affected all financial markets with bonds, stocks and commodities moving to the same music.
- Shorter-term yields (less than two years) remained stable, shackled by the Fed’s near-zero rate policy, while the 10-year Treasury yields jumped over 30 basis points (bps). With the notable steepening of the yield curve the spread between the 2- and 10-year Treasury yields (120 bps) ended the month just shy of its widest level in five years and a far cry from the curve a year ago when spreads were 30 bps.
- The sharp upward movement in long-term rates led long-maturity securities to sink in value and depressed returns in longer-maturity portfolios. The 3-month Treasury benchmark returned 0.01%, while the 2- and 10-year indices recorded losses of 0.04% and 3.16%, respectively.

Municipal Bond Market

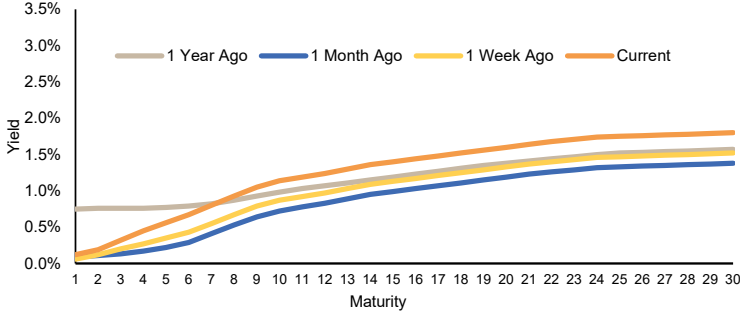
- Municipal new issuance fell in February by 21.4% to \$33.2 billion from \$42.2 billion the same month last year. Total municipal new issuance for the first two months of 2021 is down 20.8% to \$59.4 billion for the year compared to the \$75.0 billion recorded for the first two months of 2020, according to the Municipal Market Monitor (TM3) data.
- February experienced positive bond flows throughout the month and ended with net inflows totaling \$10.6 billion, following January’s net inflows of \$15.2 billion, according to Investment Company Institute (ICI) data.
- In February, the Municipal Market Data (MMD) Index experienced rising rates across the curve. The 1-year rate rose 3 bps to 0.12%, and the 3-year increased 19 bps to 0.32%. The 5-year rate jumped 34 bps to 0.56%, and the 10-year rate rose by 42 bps to 1.14%. On the long end, the 30-year rate increased 42 bps from 1.38% to 1.80%, according to TM3 data.
- During February, the 10-year MMD Single-A General Obligation (GO) Index credit spread rose 2 bps to 32 bps, and the Double-A GO Index credit spread also increased by 2 bps to end the month at 15 bps.
- Municipal-to-Treasury ratios rose throughout the curve in February. The 2-year ratio jumped to 126.7% from 94.0%, and the 5-year ratio increased to 73.7% from 50.6% last month. The intermediate-term ratio rose to 68.7% from 52.4%, and the 10-year ratio increased to 78.7% from 66.9% in January. The 30-year ratio also grew in February to 82.2% from 75.0% last month, according to TM3 data.
- The Municipal 2- through 10-year slope steepened in February, with the AAA MMD 2- through 10-year slope increasing to 95 bps from 61 bps in January. The slope between the AAA MMD 2- through 30-year rising to 161 bps from January’s 127 bps.

Spot Rates				
Term	Current 2/26/2021	1 Week Ago 2/19/2021	1 Month Ago 1/29/2021	1 Year Ago 2/26/2020
2-Year	0.19	0.12	0.11	0.76
3-Year	0.32	0.20	0.13	0.76
5-Year	0.56	0.35	0.22	0.77
7-Year	0.80	0.55	0.41	0.82
10-Year	1.14	0.87	0.72	0.98
30-Year	1.80	1.52	1.38	1.57

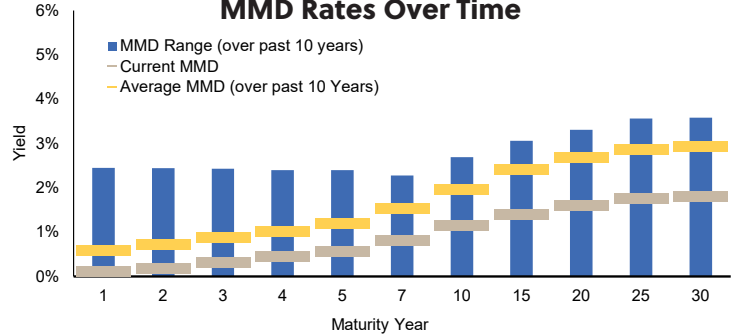
Change in Spot Rate (basis points)			
Term	1 Week Ago 2/19/2021	1 Month Ago 1/29/2021	1 Year Ago 2/26/2020
2-Year	7	8	-57
3-Year	12	19	-44
5-Year	21	34	-21
7-Year	25	39	-2
10-Year	27	42	16
30-Year	28	42	23

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.19%	0.13%	0.14%
3-Year	0.32%	0.28%	0.26%
5-Year	0.56%	0.73%	0.59%
7-Year	0.80%	1.12%	0.87%
10-Year	1.14%	1.41%	1.17%
30-Year	1.80%	2.15%	1.70%

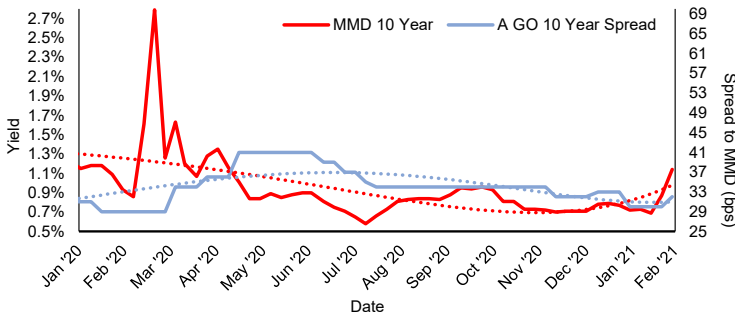
MMD AAA GO CURVE



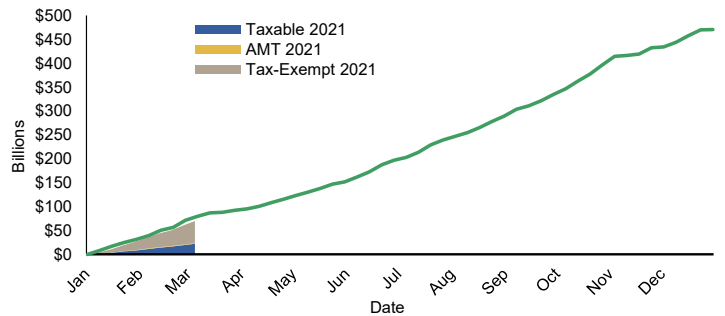
MMD Rates Over Time



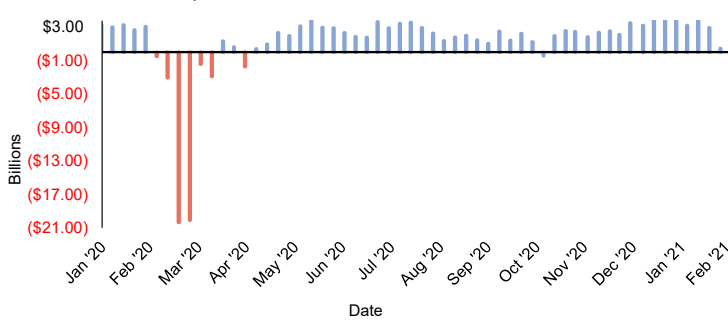
Rate and Spread Movement



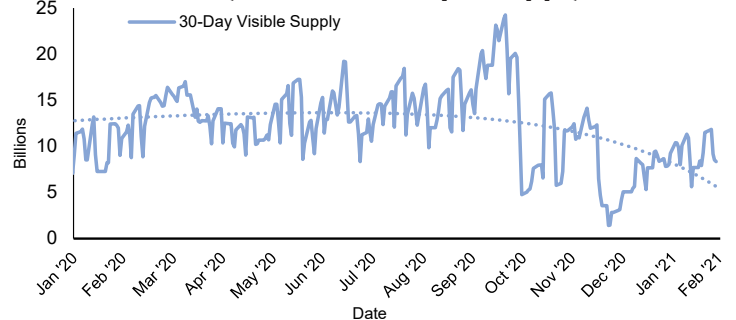
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
03/15/2021	08:30 AM	Empire Manufacturing	03/22/2021	08:30 AM	Chicago Fed Nat Activity Index	03/26/2021	08:30 AM	Retail Inventories MoM
03/15/2021	04:00 PM	Total Net TIC Flows	03/22/2021	10:00 AM	Existing Home Sales	03/26/2021	08:30 AM	Personal Income
03/15/2021	04:00 PM	Net Long-term TIC Flows	03/22/2021	10:00 AM	Existing Home Sales MoM	03/26/2021	08:30 AM	Personal Spending
03/16/2021	08:30 AM	Import Price Index MoM	03/23/2021	08:30 AM	Current Account Balance	03/26/2021	08:30 AM	Real Personal Spending
03/16/2021	02:00 PM	Retail Sales Ex Auto MoM	03/23/2021	10:00 AM	New Home Sales	03/26/2021	10:00 AM	U. of Mich. Expectations
03/16/2021	02:00 PM	Retail Sales Ex Auto and Gas	03/24/2021	07:00 AM	MBA Mortgage Applications	03/26/2021	10:00 AM	U. of Mich. 1 Yr Inflation
03/17/2021	07:00 AM	MBA Mortgage Applications	03/24/2021	08:30 AM	Durable Goods Orders	03/26/2021	10:00 AM	U. of Mich. 5-10 Yr Inflation
03/17/2021	08:30 AM	Building Permits MoM	03/24/2021	08:30 AM	Durables Ex Transportation	03/29/2021	10:30 AM	Dallas Fed Manf. Activity
03/17/2021	08:30 AM	Building Permits	03/24/2021	08:30 AM	Cap Goods Orders Nondef Ex Air	03/30/2021	09:00 AM	FHFA House Price Index MoM
03/17/2021	08:30 AM	Housing Starts	03/24/2021	04:00 PM	Cap Goods Ship Nondef Ex Air	03/30/2021	09:00 AM	S&P CoreLogic CS 20-City MoM SA
03/17/2021	02:00 PM	Interest Rate on Excess Reserves	03/24/2021	10:00 AM	Revisions: Wholesale inventories	03/30/2021	02:00 PM	Conf. Board Consumer Confidence
03/18/2021	08:30 AM	Initial Jobless Claims	03/25/2021	08:30 AM	Initial Jobless Claims	03/30/2021	02:00 PM	Conf. Board Present Situation
03/18/2021	08:30 AM	Continuing Claims	03/25/2021	08:30 AM	Continuing Claims	03/30/2021	02:00 PM	Conf. Board Expectations
03/18/2021	08:30 AM	Philadelphia Fed Business Outlook	03/25/2021	08:30 AM	GDP Annualized QoQ	03/31/2021	07:00 AM	MBA Mortgage Applications
03/18/2021	09:45 AM	Langer Consumer Comfort	03/25/2021	08:30 AM	Personal Consumption	03/31/2021	08:15 AM	ADP Employment Change

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of February 26, 2021.

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