



# Monthly Market Review

## Economic Highlights

- The recent hurricanes led to volatility in U.S. economic data, but historically weather-related effects are short-lived. Unemployment claims spiked to a two-year high. The labor market experienced a net decline of 33,000 jobs in September, the first negative reading since 2010. Employment in food service and drinking establishments were particularly affected. Retail fuel prices rose due to supply chain disruptions.
- Despite hurricane-induced job losses, the unemployment rate dropped to 4.2% in September, a new 16-year low, while average hourly earnings accelerated to a 2.9% year-over-year (YoY) growth rate. But, the impact of weather on the data may overstate the apparent strength.
- The final estimate of second quarter gross domestic product (GDP) showed the U.S. economy expanded at a healthy pace of 3.1%, but estimates for the third quarter are closer to the 2% trend.
- Inflation remained subdued as the core personal consumption expenditures (PCE) price index – the Federal Reserve’s (Fed) preferred measure of inflation – rose only 1.3% YoY in August, which was short of the 2% target and the weakest reading since 2015.
- In more positive news, both the manufacturing and services sectors expanded in September, according to the Purchasing Managers’ Index (PMI). Home prices and sales activity indicate a solid housing market, while general sentiment indicators confirm continued confidence.

## Bond Markets

- At the conclusion of its September meeting, the Federal Open Market Committee (FOMC) announced balance sheet tapering would begin in October. The pace of tapering will follow the schedule provided previously. The widely expected announcement elicited little market reaction. Committee members also provided guidance that seemed to favor a December rate hike.
- Interest rates rose across all maturities as the market responded to continued growth in the U.S. economy, the Fed’s indication that more rate hikes are coming, and the potential economic boost from tax reform.
- The yield on two-year Treasury notes rose 16 basis points (bps) to 1.49%, its highest level since 2008. The yield on 10-year Treasury notes rose 21 bps to 2.33%, its steepest monthly increase of the year; but the current level is still short of peak yields in early 2017.
- Yield spreads on federal agency and corporate bonds narrowed during the month, buoyed by strong demand for yield on high grade investments. As a result, both sectors outperformed comparable-maturity Treasuries.

- Expected Fed balance sheet tapering, which will reduce the pace of FOMC reinvestment in mortgage-backed securities (MBS) is a negative for the sector.
- Asset-backed securities (ABS) yield spreads remain narrow, but the incremental yield of these securities led to modest out-performance vs. Treasuries.

## Municipal Bond Market

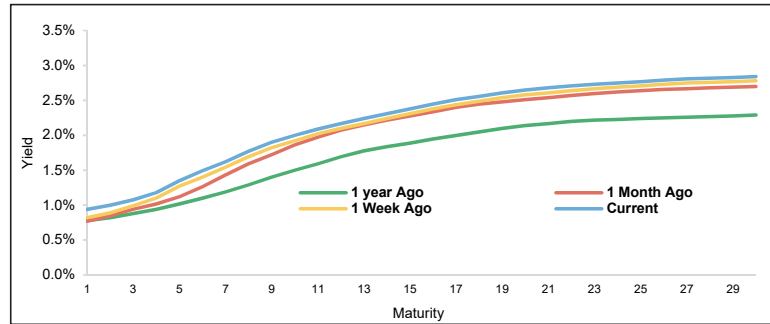
- Municipal new issuance declined in September with a 31.9% drop in municipal bond sales to \$27.5 billion from \$40.4 billion the same month last year. Year-to-date (YTD) sales are down 18.7% to \$252.1 billion from \$310.1 billion the same period last year according to the Municipal Market Monitor (TM3) data.
- Municipal bond flows were positive throughout the month with inflows through the week of September 27 at \$3.1 billion, falling from August’s \$4.5 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Index Data (MMD) curve saw rates rising across the board. One-year rates rose 17 bps while three-year rates rose 14 bps, five-year rates rose 23 bps and 10-year rates rose 14 bps. On the long end, the 30-year increased by 14 bps according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spreads and Double-A GO Index credit spreads were unchanged at 52 and 19 bps respectively, according to TM3 data.
- In July, Municipal/Treasury ratios increased across the board, except for the 10-year ratio. The two-year ratio rose to 67.6% from 63.9% in September and the five-year ratio rose to 70.3% from 65.7%. The intermediate-term ratio rose to 75.1% from 73.4%, while the 10-year ratio fell to 86.2% from 87.7%. The 30-year rose to 99.5% from 99.1% last month, according to TM3 data.
- The Federal Open Market Committee (FOMC) voted in September to hold interest rates between 1% and 1.25%. The FOMC announced it will initiate the balance sheet normalization program. Markets imply virtually no likelihood of a rate hike in November, but a 76% likelihood of a rate hike in December.

Spot Rates				
	Current 9/29/2017	1 Week Ago 9/22/2017	1 Month Ago 8/31/2017	1 Year Ago 9/29/2016
2 year	1.00	0.89	0.85	0.82
3 year	1.08	0.99	0.94	0.88
5 year	1.35	1.27	1.12	1.02
7 year	1.62	1.54	1.43	1.19
10 year	2.00	1.92	1.86	1.50
30 year	2.84	2.78	2.70	2.29

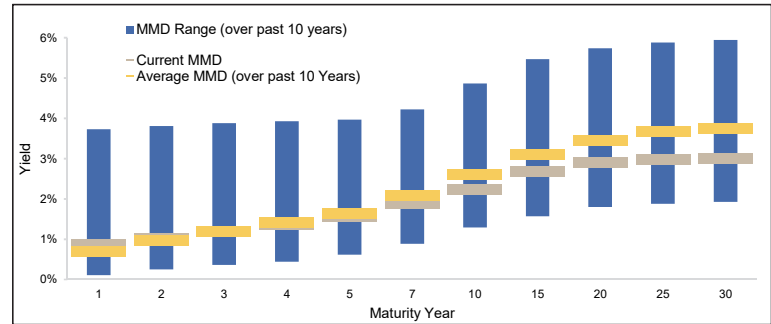
Change in Spot Rate (basis points)				
	1 Week Ago 9/22/2017	1 Month Ago 8/31/2017	1 Year Ago 9/29/2016	
2 year	11	15	18	
3 Year	9	14	20	
5 Year	8	23	33	
7 Year	8	19	43	
10 Year	8	14	50	
30 Year	6	14	55	

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2 year	1.00%	1.29%	1.02
3 year	1.08%	1.39%	1.10
5 year	1.35%	1.65%	1.29
7 year	1.62%	1.90%	1.44
10 year	2.00%	2.07%	1.59
30 year	2.84%	2.69%	2.03

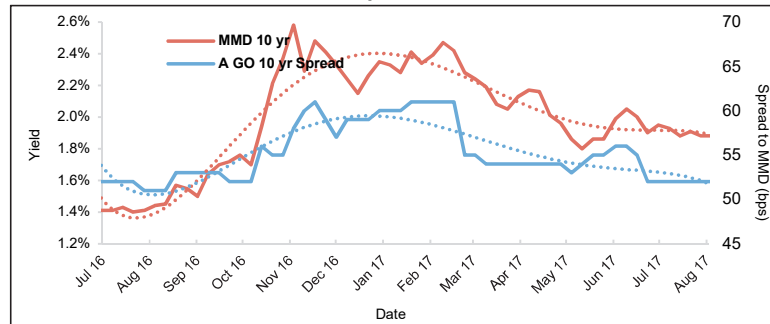
MMD AAA G.O. Curve



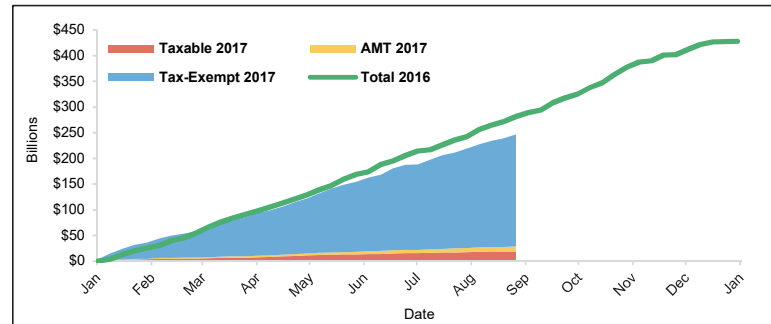
MMD Rates Over Time



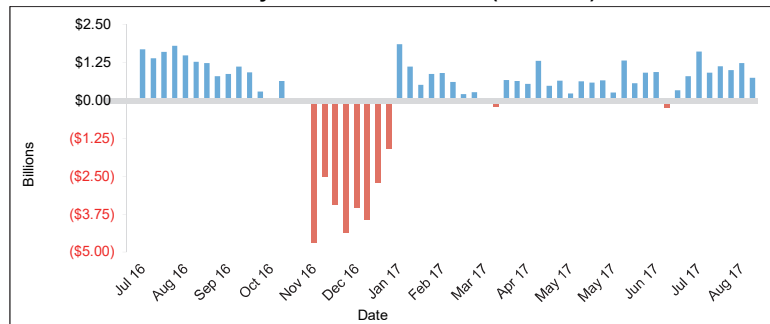
Rate and Spread Movement



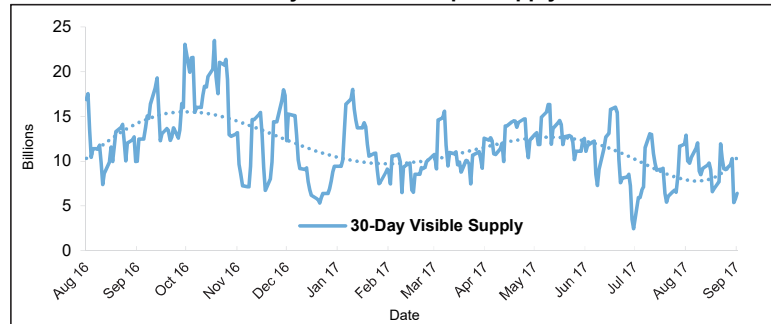
2017 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
10/06/17	8:30 AM	Change in Nonfarm Payrolls	10/11/17	10:00 AM	JOLTS Job Openings	10/13/17	8:30 AM	CPI Core Index SA
10/06/17	8:30 AM	Two-Month Payroll Net Revision	10/12/17	8:30 AM	PPI Final Demand MoM	10/13/17	8:30 AM	CPI Index NSA
10/06/17	8:30 AM	Change in Private Payrolls	10/12/17	8:30 AM	PPI Ex Food and Energy MoM	10/13/17	8:30 AM	Real Avg Weekly Earnings YoY
10/06/17	8:30 AM	Change in Manufact. Payrolls	10/12/17	8:30 AM	PPI Ex Food, Energy, Trade MoM	10/13/17	8:30 AM	Retail Sales Advance MoM
10/06/17	8:30 AM	Unemployment Rate	10/12/17	8:30 AM	PPI Final Demand YoY	10/13/17	8:30 AM	Real Avg Hourly Earning YoY
10/06/17	8:30 AM	Average Hourly Earnings MoM	10/12/17	8:30 AM	PPI Ex Food and Energy YoY	10/13/17	8:30 AM	Retail Sales Ex Auto MoM
10/06/17	8:30 AM	Average Hourly Earnings YoY	10/12/17	8:30 AM	PPI Ex Food, Energy, Trade YoY	10/13/17	8:30 AM	Retail Sales Ex Auto and Gas
10/06/17	8:30 AM	Average Weekly Hours All Employees	10/12/17	8:30 AM	Initial Jobless Claims	10/13/17	8:30 AM	Retail Sales Control Group
10/06/17	8:30 AM	Labor Force Participation Rate	10/12/17	8:30 AM	Continuing Claims	10/13/17	10:00 AM	U. of Mich. Sentiment
10/06/17	8:30 AM	Underemployment Rate	10/12/17	9:45 AM	Bloomberg Consumer Comfort	10/13/17	10:00 AM	U. of Mich. Current Conditions
10/06/17	10:00 AM	Wholesale Inventories MoM	10/12/17	10:20 AM	Monthly Budget Statement	10/13/17	10:00 AM	U. of Mich. Expectations
10/06/17	10:00 AM	Wholesale Trade Sales MoM	10/13/17	8:30 AM	CPI MoM	10/13/17	10:00 AM	U. of Mich. 1 Yr Inflation
10/06/17	3:00 PM	Consumer Credit	10/13/17	8:30 AM	CPI Ex Food and Energy MoM	10/13/17	10:00 AM	U. of Mich. 5-10 Yr Inflation
10/10/17	6:00 AM	NFIB Small Business Optimism	10/13/17	8:30 AM	CPI YoY	10/13/17	10:00 AM	Business Inventories
10/11/17	7:00 AM	MBA Mortgage Applications	10/13/17	8:30 AM	CPI Ex Food and Energy YoY	10/13/17	10:00 AM	Business Inventories

Sources: Bloomberg, Thomson Reuters, and ICI. Unless otherwise noted, all data is presented as of 8/31/2017.

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