



Monthly Market Review

While on the main stage, the trade war continued.

Economic Highlights

- Although domestic economic data remains generally positive, concerns about global growth, geopolitical issues in Europe and the U.S.-China trade war remain center stage.
- President Trump announced, by tweet, another round of tariffs on “the remaining 300 Billion Dollars of goods and products coming from China” into the U.S. A 10% tariff on \$112 billion went into effect on September 1, with the balance deferred until December 15 to avoid harming American consumers during the holiday shopping season. Not to be upstaged, China retaliated by halting the purchase of U.S. agricultural goods and imposing a new round of tariffs on \$75 billion of U.S. goods. The markets remain on edge for each new tweet, announcement or news event.
- Following the 25 basis point (bps) (0.25%) rate cut at July’s Federal Reserve (Fed) meeting, market pundits have called into question central bank independence in the face of blistering White House criticism. Nevertheless, Fed Chair Jerome Powell has set the stage for another “mid-cycle rate adjustment” in September. The European Central Bank and other central banks around the globe have also begun to shift towards a more accommodative posture.
- The U.S. labor market remains strong, but job gains have moderated. The U.S. added 130,000 jobs in August, below expectations, and that figure included 25,000 temporary hirings to prepare for the 2020 census. The unemployment rate remained at 3.7%, while the labor force participation rate rose and wages grew at a decent pace.
- U.S. manufacturing remains in the limelight, with industry surveys showing a notable decrease in business confidence and contraction in orders, exports, production and employment. Although an important indicator, the manufacturing sector today is only responsible for about 8.5% of jobs in the U.S. Manufacturing is among the sectors most sensitive to trade and business cycle turns.
- An 8.4% jump in building permits and a 2.5% rise in existing home sales were positive indicators for the housing market, while a plunge in new home sales, decline in housing starts and weak home price gains disappointed. The expected boost from lower mortgage rates has yet to fully materialize.

Bond Markets

- U.S. Treasury yields plunged in August, posting the sharpest monthly declines since 2015. Thirty-year Treasuries reached record lows, falling below 2% for the first time ever. The inversion of the yield curve grew, with 10-year Treasuries falling below those of two-year Treasuries in a classic early warning sign of recession. Yields on short maturities (less than one year) fell nine to 22 bps, while yields on maturities greater than one year fell 37 to 56 bps.

- As a result, August’s bond rally led to strong returns on longer-term Treasury benchmarks compared to their shorter counterparts. For example, the three-month and 12-month U.S. Treasury indices returned 0.21% and 0.38%, respectively. Meanwhile, the two-year, five-year and 10-year indices generated returns of 0.83%, 2.26% and 4.67%, respectively, for the month.
- Although absolute returns were strong across the board in August, diversification generally detracted from performance as most spread sectors did not keep pace with the significant rally in the U.S. Treasury market.

Municipal Bond Market

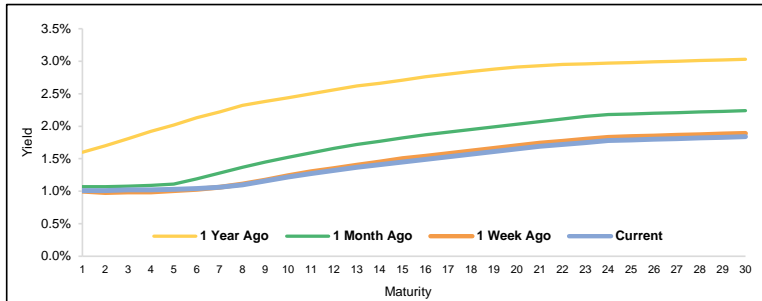
- Municipal new issuance increased in August by 13.6% to \$38.75 billion from \$34.1 billion the same month last year. Year-to-date municipal new issuance is up 5.3% to \$239.9 billion for 2019 from \$227.8 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- August experienced positive bond flows throughout the month and ended with net inflows totaling \$8.79 billion, following July’s net inflows of \$10.14 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index saw declining rates across the yield curve in August. The 1-year rate dropped 6 bps to 1.01%, while the 3-year rate dropped 6 bps to 1.02%. The 5-year rate declined 8 bps to 1.03%, while the 10-year rate decreased 30 bps to 1.22%. On the long end, the 30-year rate dropped 40 bps to 1.84%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread decreased by 3 bps to 28 bps and the Double-A GO Index credit spread remained unchanged at 12 bps, according to TM3 data.
- In August, Municipal-to-Treasury ratios experienced increasing rates across the yield curve. The 2-year ratio rose to 66.7% from 56.4% in July, and the 5-year ratio increased to 73.9% from 60.0%. The intermediate-term ratio rose to 72.7% from 66.3% and the 10-year ratio rose to 81.2% from 75.2%. The 30-year ratio grew to 93.7% from 88.7%, according to TM3 data.
- The Municipal curve steepened in August with the AAA MMD 2-year/10-year slope falling to 21 bps from 45 bps in July, and the AAA MMD 2-year/30-year slope decreasing to 83 bps from July’s 117 bps.

Spot Rates				
Term	Current 8/30/2019	1 Week Ago 8/23/2019	1 Month Ago 7/31/2019	1 Year Ago 8/30/2018
2-Year	1.01	0.98	1.07	1.70
3-Year	1.02	0.99	1.08	1.81
5-Year	1.03	1.01	1.11	2.02
7-Year	1.06	1.06	1.28	2.22
10-Year	1.22	1.24	1.52	2.44
30-Year	1.84	1.89	2.24	3.03

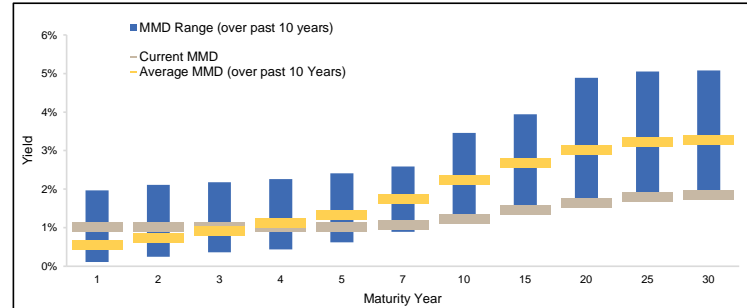
Change in Spot Rate (basis points)			
	1 Week Ago 8/23/2019	1 Month Ago 7/31/2019	1 Year Ago 8/30/2018
2-Year	3	-6	-69
3-Year	3	-6	-79
5-Year	2	-8	-99
7-Year	0	-22	-116
10-Year	-2	-30	-122
30-Year	-5	-40	-119

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.01%	1.51%	1.02
3-Year	1.02%	1.43%	0.96
5-Year	1.03%	1.39%	0.95
7-Year	1.06%	1.45%	1.01
10-Year	1.22%	1.50%	1.11
30-Year	1.84%	1.96%	1.42

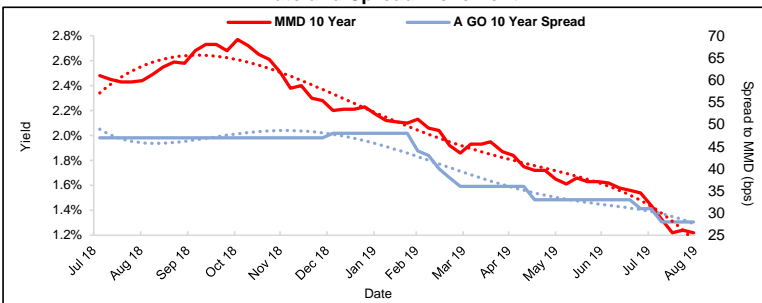
MMD AAA GO Curve



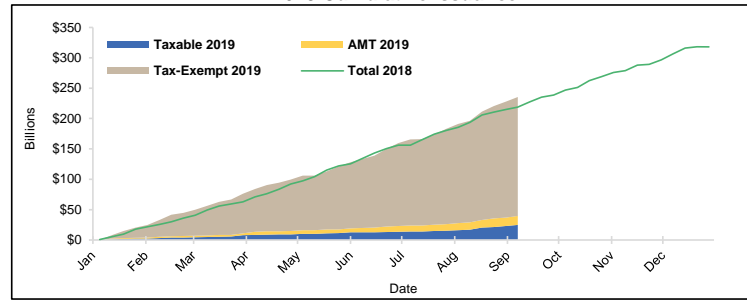
MMD Rates Over Time



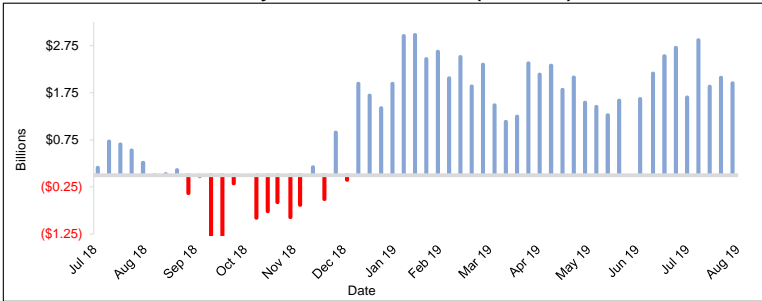
Rate and Spread Movement



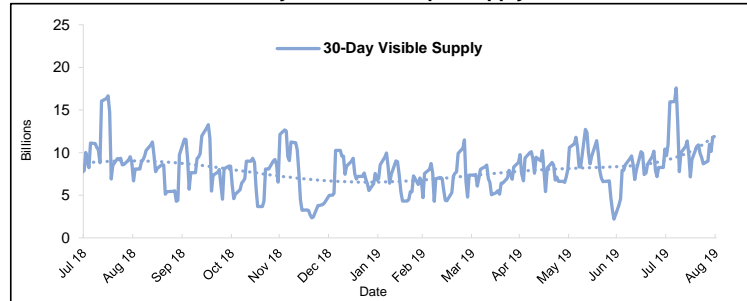
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
09/06/2019	08:30 AM	Underemployment Rate	09/13/2019	10:00 AM	U. of Mich. Expectations	09/19/2019	10:00 AM	Leading Index
09/09/2019	03:00 PM	Consumer Credit	09/13/2019	10:00 AM	U. of Mich. 1 Yr Inflation	09/19/2019	10:00 AM	Existing Home Sales
09/10/2019	06:00 AM	NFIB Small Business Optimism	09/13/2019	10:00 AM	U. of Mich. 5-10 Yr Inflation	09/19/2019	10:00 AM	Existing Home Sales MoM
09/10/2019	10:00 AM	JOLTS Job Openings	09/13/2019	10:00 AM	Business Inventories	09/20/2019	12:00 AM	Household Change in Net Worth
09/11/2019	07:00 AM	MBA Mortgage Applications	09/16/2019	08:30 AM	Empire Manufacturing	09/23/2019	08:30 AM	Chicago Fed Nat Activity Index
09/11/2019	08:30 AM	PPI Ex Food, Energy, Trade YoY	09/17/2019	09:15 AM	Industrial Production MoM	09/23/2019	09:45 AM	Markit US Manufacturing PMI
09/11/2019	10:00 AM	Wholesale Trade Sales MoM	09/17/2019	10:00 AM	NAHB Housing Market Index	09/23/2019	09:45 AM	Markit US Services PMI
09/11/2019	10:00 AM	Wholesale Inventories MoM	09/17/2019	04:00 PM	Net Long-term TIC Flows	09/25/2019	10:00 AM	New Home Sales MoM
09/12/2019	08:30 AM	Real Avg Weekly Earnings YoY	09/17/2019	04:00 PM	Total Net TIC Flows	09/26/2019	08:30 AM	Retail Inventories MoM
09/12/2019	08:30 AM	CPI Index NSA	09/18/2019	07:00 AM	MBA Mortgage Applications	09/26/2019	08:30 AM	GDP Annualized QoQ
09/12/2019	08:30 AM	Initial Jobless Claims	09/18/2019	08:30 AM	Building Permits MoM	09/26/2019	08:30 AM	Personal Consumption
09/12/2019	08:30 AM	Real Avg Hourly Earning YoY	09/18/2019	08:30 AM	Building Permits	09/26/2019	08:30 AM	GDP Price Index
09/12/2019	08:30 AM	Continuing Claims	09/18/2019	08:30 AM	Housing Starts	09/27/2019	10:00 AM	U. of Mich. 1 Yr Inflation
09/12/2019	09:45 AM	Bloomberg Consumer Comfort	09/18/2019	02:00 PM	Interest Rate on Excess Reserves	09/27/2019	10:00 AM	U. of Mich. 5-10 Yr Inflation
09/12/2019	02:00 PM	Monthly Budget Statement	09/19/2019	08:30 AM	Current Account Balance	09/30/2019	09:45 AM	MNI Chicago PMI

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of August 30, 2019.

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