



Monthly Market Review

“Mixed signals or solid recovery? Something doesn’t quite add up.”

Economic Highlights

- Stocks continued their historic rebound, labor markets improved, the housing market expanded and bonds began to price in rising inflation expectations. But, simultaneously, the risk of a “K-shaped” recovery grew as the coronavirus threat, protests over the racial divide and widening gaps in income and wealth challenged the way forward.
- The Federal Open Market Committee announced major policy shifts on inflation and employment in August. The Federal Reserve (Fed) will now seek “to achieve inflation that averages 2% over time,” moving away from the prior point-in-time target approach. Since inflation has run below 2% for some time, this implies that the Fed would let inflation run higher for a time before raising rates as it seeks to promote stable rising prices and recovery to maximum employment. Fed governors are also quite vocal in calling for more fiscal stimulus to supplement its zero-rate monetary policy.
- The U.S. economy added 1.4 million jobs in August, and the headline unemployment rate fell to 8.4% (from 10.2% in July). This was a robust result, but one that nevertheless signaled a slowing pace of recovery. Government employment increased due to temporary census workers, with other notable gains in retail, business services, leisure and hospitality, and education and health services. Yet total employment remains more than 11 million below February’s pre-pandemic level.
- Manufacturing activity expanded at the fastest pace since late 2018. New orders jumped to the highest point since the start of 2004 and, along with declining inventories, should continue to support production.
- Consumers increased spending in July, albeit at a slower pace than in prior months, as COVID-19 concerns linger and the expiration of government aid programs loom. One worrisome sign is that consumer confidence fell to a new pandemic low, another is that business investment remains weak.

Bond Markets

- The U.S. Treasury yield curve steepened as Treasury debt issuance weighed on the markets and the new Fed policy suggested if price increases take hold, the central bank would refrain from what some might view as precipitous action to dampen inflation. The front end of the yield curve remained relatively unchanged, with yields maintaining a low and tight range. Meanwhile, maturities beyond seven years increased 18 to 28 basis points (bps) (0.18% to 0.28%).

- As a result, longer-maturity Treasuries underperformed; returns on shorter tenors were muted. For August, the 3-month Treasury Index returned 0.01%; the 5-year Treasury Index returned -0.22% and the 10-year Treasury Index returned -1.33%.
- Investment-grade (IG) corporate bonds out-performed once again, even though issuance heated up again in August. IG corporate spreads continued to grind tighter, nearing pre-pandemic levels.
- For the month, IG companies raised \$144 billion of debt compared to \$70 billion issued in July.

Municipal Bond Market

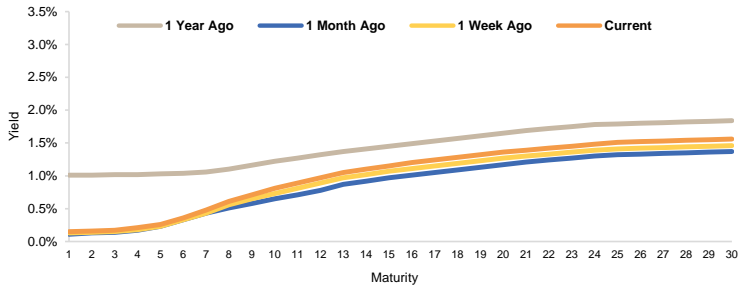
- Municipal new issuance increased in August by 4.8% to \$41.4 billion from \$39.5 billion the same month last year. Year-to-date municipal new issuance is up 20.8% to \$294 billion for 2020 from \$243.3 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- August experienced positive bond fund flows throughout the month and ended with net inflows totaling \$12.1 billion, following July’s net inflows of \$11.6 billion, according to Investment Company Institute (ICI) data.
- In August, the Municipal Market Data (MMD) Index experienced an increase across the yield curve. On the short-end, the 1-year rate rose 4 bps to 0.15%, and the 3-year rate went up 3 bps to 0.17%. The 5-year rate increased by 3 bps to 0.26%. On the long-end, the 10-year rate rose 16 bps to 0.81% and the 30-year rate surged by 19 bps to 1.56%, according to Municipal Market Monitor (TM3) data.
- During August, the 10-year MMD Single-A General Obligation (GO) Index credit spread fell to 34 bps from 37 bps in July and the Double-A GO Index credit spread remained unchanged at 15 bps, according to TM3 data.
- Municipal-to-Treasury ratios decreased in August. The 2-year ratio increased to 122.1% from 117.1%, and the 5-year ratio fell to 98.9% from 107.0%. The intermediate-term ratio declined to 99.2% from 110.0%, and the 10-year ratio dropped to 114.7% from 120.8% in July. The 30-year ratio decreased to 106.1% from 114.2%, according to TM3 data.
- The Municipal curve steepened in August with the AAA MMD 2-through 10-year slope increasing to 65 bps from July’s 52 bps, and the slope between the AAA MMD 2-through 30-year rising to 140 bps from July’s 124 bps.

Spot Rates				
Term	Current 8/31/2020	1 Week Ago 8/24/2020	1 Month Ago 7/31/2020	1 Year Ago 8/31/2019
2-Year	0.16	0.14	0.13	1.01
3-Year	0.17	0.15	0.14	1.02
5-Year	0.26	0.23	0.23	1.03
7-Year	0.48	0.43	0.43	1.06
10-Year	0.81	0.73	0.65	1.22
30-Year	1.56	1.46	1.37	1.84

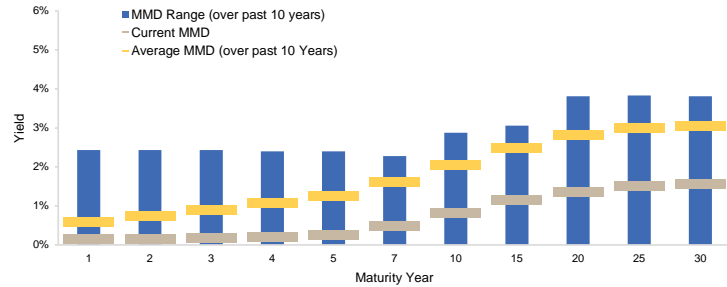
Change in Spot Rate (basis points)			
	1 Week Ago 8/24/2020	1 Month Ago 7/31/2020	1 Year Ago 8/31/2019
2-Year	2	3	-85
3-Year	2	3	-85
5-Year	3	3	-77
7-Year	5	5	-58
10-Year	8	16	-41
30-Year	10	19	-28

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.16%	0.13%	0.15%
3-Year	0.17%	0.15%	0.16%
5-Year	0.26%	0.27%	0.24%
7-Year	0.48%	0.49%	0.37%
10-Year	0.81%	0.71%	0.55%
30-Year	1.56%	1.48%	0.95%

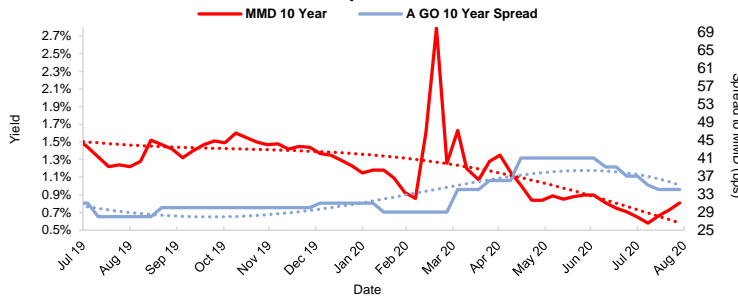
MMD AAA GO Curve



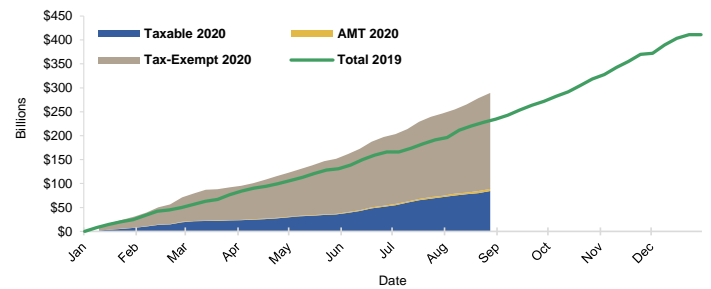
MMD Rates Over Time



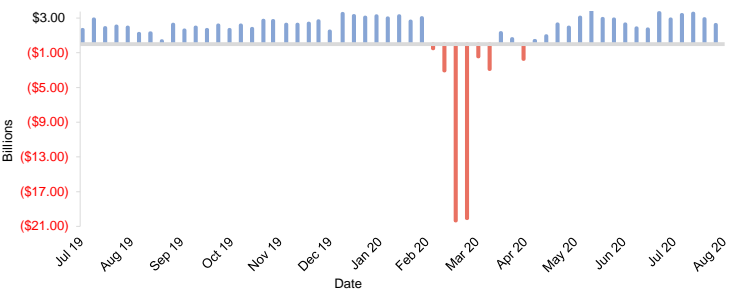
Rate and Spread Movement



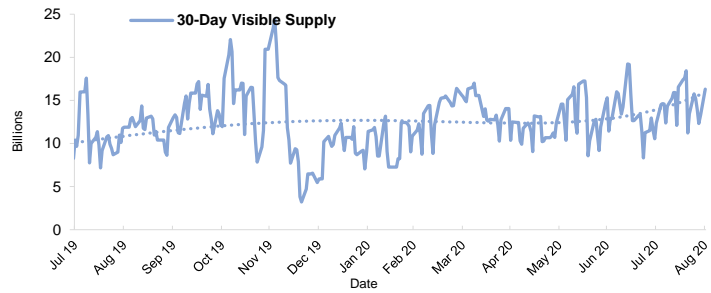
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
09/01/2020	09:45 AM	Markit US Manufacturing PMI	09/17/2020	08:30 AM	Philadelphia Fed Business Outlook	09/28/2020	10:30 AM	Dallas Fed Manf. Activity
09/01/2020	10:00 AM	ISM Employment	09/17/2020	08:30 AM	Initial Jobless Claims	09/29/2020	08:30 AM	Advance Goods Trade Balance
09/01/2020	10:00 AM	Construction Spending MoM	09/17/2020	09:45 AM	Bloomberg Economic Expectations	09/29/2020	08:30 AM	Wholesale Inventories MoM
09/02/2020	08:15 AM	ADP Employment Change	09/17/2020	09:45 AM	Bloomberg Consumer Comfort	09/29/2020	08:30 AM	Retail Inventories MoM
09/02/2020	10:00 AM	Factory Orders	09/18/2020	08:30 AM	Current Account Balance	09/29/2020	09:00 AM	S&P CoreLogic CS 20-City MoM SA
09/03/2020	08:30 AM	Nonfarm Productivity	09/18/2020	10:00 AM	Leading Index	09/29/2020	09:00 AM	S&P CoreLogic CS US HPI YoY NSA
09/04/2020	08:30 AM	Unemployment Rate	09/21/2020	08:30 AM	Chicago Fed Nat Activity Index	09/29/2020	09:00 AM	S&P CoreLogic CS US HPI NSA Index
09/08/2020	06:00 AM	NFIB Small Business Optimism	09/21/2020	12:00 PM	Household Change in Net Worth	09/29/2020	10:00 AM	Conf. Board Consumer Confidence
09/10/2020	09:45 AM	Bloomberg Consumer Comfort	09/22/2020	10:00 AM	Existing Home Sales MoM	09/29/2020	10:00 AM	Conf. Board Present Situation
09/15/2020	08:30 AM	Empire Manufacturing	09/23/2020	09:00 AM	FHFA House Price Index MoM	09/30/2020	07:00 AM	MBA Mortgage Applications
09/15/2020	09:15 AM	Capacity Utilization	09/23/2020	09:45 AM	Markit US Manufacturing PMI	09/30/2020	08:15 AM	ADP Employment Change
09/16/2020	10:00 AM	NAHB Housing Market Index	09/24/2020	08:30 AM	Continuing Claims	09/30/2020	08:30 AM	GDP Annualized QoQ
09/16/2020	02:00 PM	Interest Rate on Excess Reserves	09/24/2020	11:00 AM	Kansas City Fed Manf. Activity	09/30/2020	08:30 AM	Personal Consumption
09/16/2020	04:00 PM	Net Long-term TIC Flows	09/25/2020	08:30 AM	Durable Goods Orders	09/30/2020	08:30 AM	GDP Price Index
09/17/2020	08:30 AM	Building Permits	09/25/2020	08:30 AM	Cap Goods Ship Nondef Ex Air	09/30/2020	09:45 AM	MNI Chicago PMI

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of August 31, 2020.

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