



# Monthly Market Review

## Economic Highlights

- Incoming economic data has been mixed, with disappointing retail sales, weak price measures and policy uncertainty offset by strength in the labor market and a rebound in gross domestic product (GDP).
- U.S. real GDP expanded at an annual rate of 2.6% in the second quarter (first estimate), with all four major components – personal consumption, government spending, investment and net exports – contributing to economic growth.
- The U.S. economy added 209,000 jobs in July, confirming a strong labor market. The unemployment rate ticked down to 4.3%, while average hourly earnings stayed at a modest 2.5% growth rate year-over-year (YOY).
- The housing market, a tailwind over the past several years, seems to have leveled off a bit. Existing home sales dropped in June, while the trajectories of housing starts and building permits slowed. Dwindling inventories contributed to record median home prices.
- Inflation measures continue to moderate. The core personal consumption expenditures price index – the Federal Reserve's (Fed) preferred measure of inflation – held at 1.5% YOY in June, but down from 1.8% a few months ago.

## Bond Markets

- Most U.S. Treasury yields were little changed in July as investors awaited clarity on economic conditions, expected Fed actions, and tax and spending policies.
- The Treasury Department continues to employ "extraordinary measures" to prevent the U.S. from defaulting on its obligations as Congress considers increasing the statutory debt limit. Yields on Treasury bills maturing in October spiked because these maturities could be directly affected if the debt limit is not raised by the end of September.
- The yield on two-year Treasury notes fell 3 basis points (bps) in July to 1.35%, while the yield on 10-year Treasury notes fell 1 bp to 2.29%. The 30-year Treasury yield rose 6 bps to 2.90%.
- Agency yield spreads remained remarkably narrow, while corporate yield spreads tightened to new multi-year lows. Performance of corporate bonds continues to outpace comparable-maturity Treasuries.
- Yield spreads on short-term credit instruments such as commercial paper and bank certificates of deposit, which were exceptionally wide during last year's money market reform implementation, have returned to more typical levels.

## Municipal Bond Market

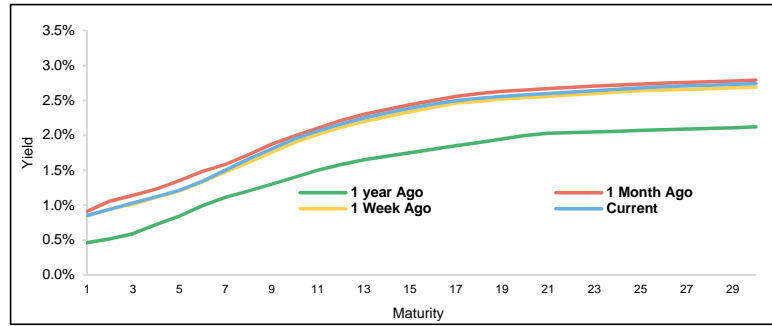
- Municipal new issuance declined in July with a 20.1% drop in municipal bond sales to \$23.4 billion from \$29.3 billion the same month last year. This was, once again, due largely to a significant decrease in refundings which were down 52.8% to \$6.1 billion from \$13 billion the same month last year according to the Municipal Market Monitor (TM3) data.
- Municipal bond flows continued to remain positive throughout the month with inflows through the week of July 26 at \$1.6 billion, falling drastically from June's \$3.1 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Index Data (MMD) curve saw rates falling across the board. 1-year rates fell 6 bps and maturities of 3, 5 and 10 years saw decreases of 11, 14 and 4 bps respectively. On the long end, the 30-year decreased by 5 bps according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spreads dropped 4 bps in July to 52 bps. The 10-year Double-A GO Index credit spreads dropped 2 bps to 19 bps, according to TM3 data.
- In July, Municipal/Treasury ratios decreased on the front end, intermediate and the long portions of the curve. The two-year ratio fell to 69.6% from 76.3% in June and the five-year ratio fell to 66.1% from 71.8% in June. The intermediate-term ratio fell to 71.3% from 74.2% last month, and the 10-year ratio fell to 85.2% from 86.5% last month. The 30-year fell to 94.6% from 98.2% last month, according to TM3 data.
- The Federal Open Market Committee (FOMC) members voted unanimously on July 26 to keep its benchmark Federal Funds Rate (FFR) and balance sheet holdings unchanged. Although Fed officials state that they remain on track to continue tightening policy this year, futures markets as of month-end imply only a 40% probability of another rate hike this year.

Spot Rates				
	Current 7/31/2017	1 Week Ago 7/24/2017	1 Month Ago 6/30/2017	1 Year Ago 7/29/2016
2 year	0.94	0.94	1.06	0.52
3 year	1.03	1.02	1.14	0.59
5 year	1.21	1.20	1.35	0.84
7 year	1.50	1.47	1.58	1.11
10 year	1.95	1.90	1.99	1.40
30 year	2.74	2.69	2.79	2.12

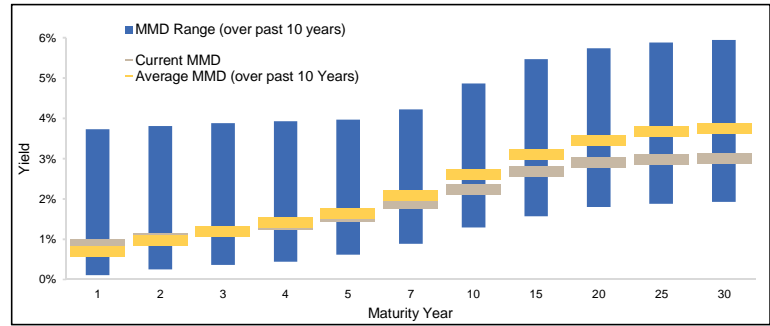
Change in Spot Rate (basis points)			
	1 Week Ago 7/24/2017	1 Month Ago 6/30/2017	1 Year Ago 7/29/2016
2 year	0	-12	42
3 Year	1	-11	44
5 Year	1	-14	37
7 Year	3	-8	39
10 Year	5	-4	55
30 Year	5	-5	62

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2 year	0.94%	1.35%	1.08
3 year	1.03%	1.51%	1.19
5 year	1.21%	1.84%	1.41
7 year	1.50%	2.11%	1.58
10 year	1.95%	2.30%	1.76
30 year	2.74%	2.90%	2.16

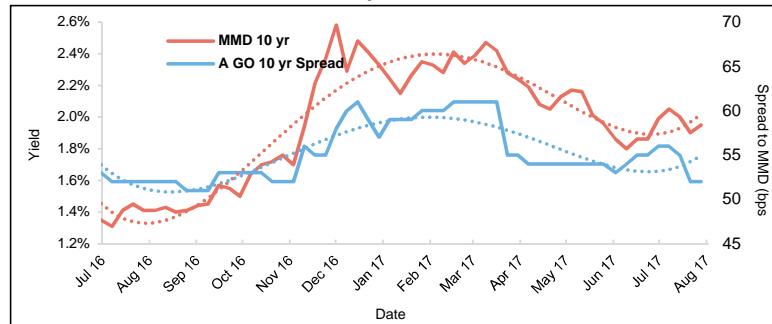
MMD AAA G.O. Curve



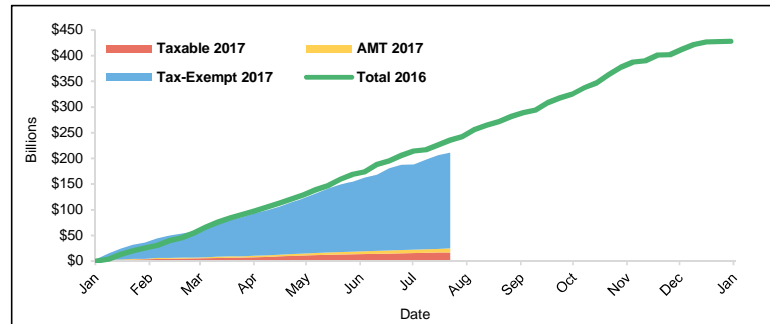
MMD Rates Over Time



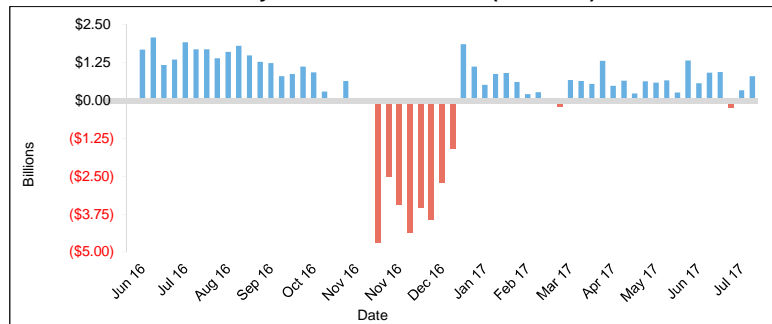
Rate and Spread Movement



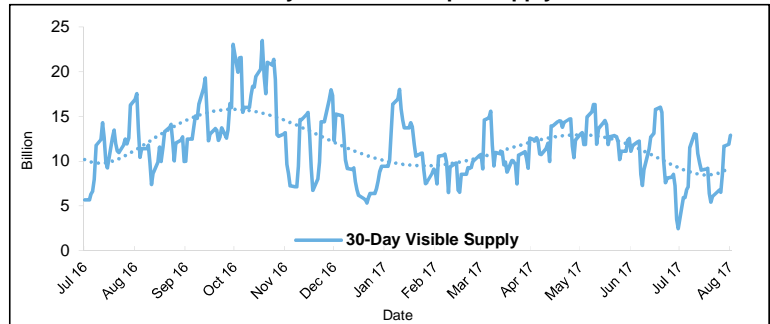
2017 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
08/01/17	12:00 AM	Wards Domestic Vehicle Sales	08/03/17	10:00 AM	Durables Ex Transportation	08/16/17	2:00 PM	FOMC Meeting Minutes
08/01/17	10:00 AM	Construction Spending MoM	08/04/17	8:30 AM	Trade Balance	08/17/17	9:15 AM	Industrial Production MoM
08/02/17	7:00 AM	MBA Mortgage Applications	08/04/17	8:30 AM	Change in Nonfarm Payrolls	08/17/17	9:15 AM	Capacity Utilization
08/02/17	7:00 AM	MBA Mortgage Applications	08/04/17	8:30 AM	Unemployment Rate	08/17/17	9:15 AM	Manufacturing (SIC) Production
08/02/17	7:00 AM	MBA Mortgage Applications	08/04/17	8:30 AM	Average Hourly Earnings MoM	08/17/17	9:45 AM	Bloomberg Economic Expectations
08/02/17	7:00 AM	MBA Mortgage Applications	08/04/17	8:30 AM	Labor Force Participation Rate	08/17/17	10:00 AM	Leading Index
08/03/17	8:30 AM	Initial Jobless Claims	08/10/17	8:30 AM	PPI Ex Food, Energy, Trade YoY	08/22/17	9:00 AM	FHFA House Price Index MoM
08/03/17	8:30 AM	Continuing Claims	08/10/17	2:00 PM	Monthly Budget Statement	08/23/17	10:00 AM	New Home Sales
08/03/17	8:30 AM	Initial Jobless Claims	08/11/17	8:30 AM	CPI MoM	08/23/17	10:00 AM	New Home Sales MoM
08/03/17	8:30 AM	Initial Jobless Claims	08/11/17	8:30 AM	CPI Index NSA	08/24/17	10:00 AM	Existing Home Sales MoM
08/03/17	9:45 AM	Markit US Services PMI	08/11/17	8:30 AM	Real Avg Weekly Earnings YoY	08/30/17	8:30 AM	GDP Annualized QoQ
08/03/17	9:45 AM	Bloomberg Consumer Comfort	08/15/17	8:30 AM	Import Price Index MoM	08/30/17	8:30 AM	Personal Consumption
08/03/17	10:00 AM	Factory Orders	08/15/17	10:00 AM	NAHB Housing Market Index	08/30/17	8:30 AM	GDP Price Index
08/03/17	10:00 AM	Durable Goods Orders	08/15/17	4:00 PM	Total Net TIC Flows	08/28/17	8:30 AM	Wholesale Inventories MoM
08/03/17	10:00 AM	Durable Goods Orders	08/16/17	8:30 AM	Housing Starts	08/29/17	10:00 AM	Conf. Board Expectations

Sources: Bloomberg, Thomson Reuters, and ICI. Unless otherwise noted, all data is presented as of 7/31/2017.

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