Monthly Market Review

Economic Highlights

- Domestic and global political turbulence may stir the markets from their summer somnolence, disrupting interest rate and stock market trends that have been intact for most of 2017. 'Tis the season of Federal spending and debt ceiling debates, complicated by massive hurricanes and existential threats on the Korean peninsula. As if not enough, federal tax reform is in the wings.
- U.S. economic growth continues, with gross domestic product (GDP) expanding at an annual rate of 3.0%, up from just 1.2% in the first quarter. Growth was driven in large part by strong personal consumption and business spending.
- The labor market added 156,000 jobs in August, below expectations, but clocked the 83rd straight month of job gains. The unemployment rate ticked up to 4.4%, while average hourly earnings experienced a 2.5% year-over-year (YOY) increase, indicating slow wage growth.
- Employment and GDP figures are likely to be distorted for the balance of the year by Hurricane Harvey, and perhaps by Irma as well.
- While the U.S. economy has arguably reached near full employment, price inflation remains stubbornly tepid. Future Federal Reserve (Fed) action may depend on progress on the inflation front, and the emphasis is likely to shift from raising short-term rates to shrinking its bloated balance sheet.

Bond Markets

- Investor anxiety over the U.S. debt ceiling caused yields on Treasuries with October maturities to spike, similar to reactions around prior debt ceiling deadlines. The Treasury Department has projected that it will run out of cash by early October unless the debt ceiling is raised. The need for a spending resolution before September 30 has exacerbated the uncertainty.
- The yield curve flattened further in August as short-maturity yields, which are closely aligned to the unchanged federal funds rate, were all but unchanged. The yield on 10-year Treasury notes fell 18 basis points (bps) to 2.11%, a low for the year. The 30-year Treasury fell 17 bps to 2.73%.
- Yield spreads on federal agencies remained narrow, as did those of corporates, amidst strong investor demand and a "reach-for-yield" mentality.
- Short-term credit instruments, such as commercial paper and bank certificates of deposit, continue to offer value over similar-maturity alternatives, although yield spreads have come in from the attractive levels generated by last year's money market reform.

Municipal Bond Market

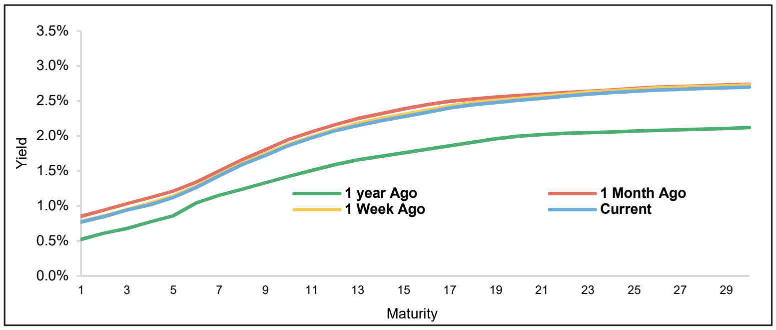
- Municipal new issuance declined in August with a 25.4% drop in municipal bond sales to $34.9 billion from $46.7 billion the same month last year. This was, once again, due largely to a significant decrease in refundings which were down 37.3% to $12.6 billion from $20 billion the same month last year. Year-to-date (YTD) long-term sales are down 15% to $257.6 billion from $302.9 billion the same period 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 August 30 at $5.0 billion, rising drastically from July's $2.5 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Index Data (MMD) curve saw rates decrease across the yield curve. One-year rates decreased 8 bps and maturities of 3, 5 and 10 years saw decreases of 9 bps across the board. On the long end, the 30-year decreased by 4 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 decreased on the front end, and increased in the intermediate and long portions of the curve. The two-year ratio fell to 63.9% from 69.6% in July and the five-year ratio fell to 65.7% from 66.1% in July. The intermediate-term ratio rose to 73.4% from 71.3% last month, and the 10-year ratio rose to 87.7% from 85.2% last month. The 30-year rose to 99.1% from 94.6% last month, according to TM3 data.
- The Federal Open Market Committee (FOMC) voted in July to hold interest rates between 1% and 1.25%. They have recently expressed a goal of setting a date to begin reducing the balance sheet and it is expected they will set a date during the September meeting. Markets imply a 32.1% likelihood of another rate hike at the December meeting.
- The sequestration rate for direct pay bonds created by the American Recovery & Reinvestment Act (ARRA) will be 6.6%, as announced by the Internal Revenue Service. The new rate will start October 1, 2017 with the beginning of the federal fiscal year (FFY) 2018. The federal subsidies paid to issuers of ARRA bonds will be reduced from their initial levels by 6.6% (e.g., initial 35% Build America Bonds federal subsidy payment will be reduced to 32.69% for FFY 2018). This is a decrease from the FFY 2017 sequestration rate of 6.9%. Impacted bonds include Build America Bonds, Qualified Zone Academy Bonds, Qualified Energy Conservation Bonds, Qualified School Construction Bonds and Redevelopment Zone Economic Development Bonds.

Spot Rates				
	Current 8/31/2017	1 Week Ago 8/24/2017	1 Month Ago 7/31/2017	1 Year Ago 8/31/2016
2 year	0.85	0.86	0.94	0.61
3 year	0.94	0.95	1.03	0.68
5 year	1.12	1.14	1.21	0.86
7 year	1.43	1.45	1.50	1.15
10 year	1.86	1.88	1.95	1.42
30 year	2.70	2.73	2.74	2.12

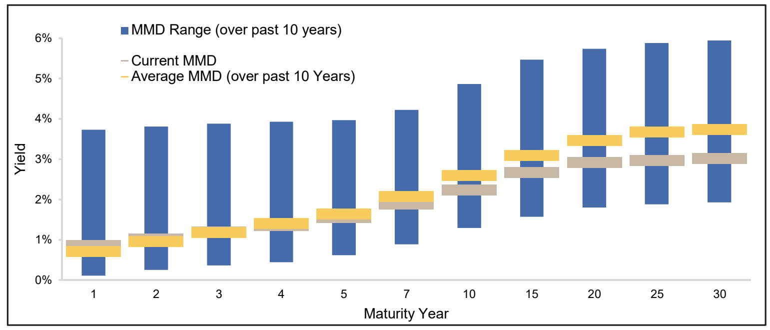
Change in Spot Rate (basis points)			
	1 Week Ago 8/24/2017	1 Month Ago 7/31/2017	1 Year Ago 8/31/2016
2 year	-1	-9	24
3 Year	-1	-9	26
5 Year	-2	-9	26
7 Year	-2	-7	28
10 Year	-2	-9	44
30 Year	-3	-4	58

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2 year	0.85%	1.33%	1.02
3 year	0.94%	1.43%	1.10
5 year	1.12%	1.70%	1.29
7 year	1.43%	1.94%	1.44
10 year	1.86%	2.12%	1.59
30 year	2.70%	2.73%	2.03

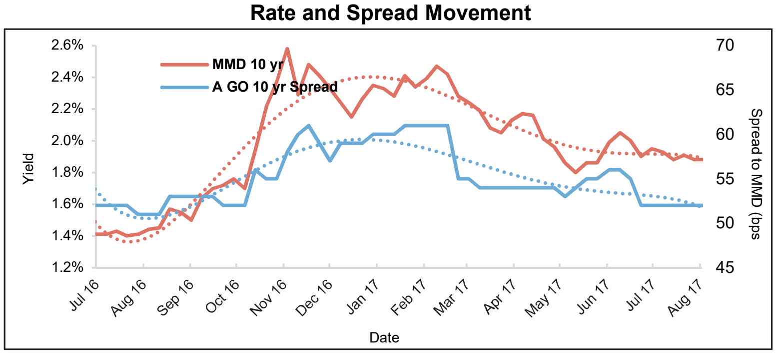
MMD AAA G.O. Curve



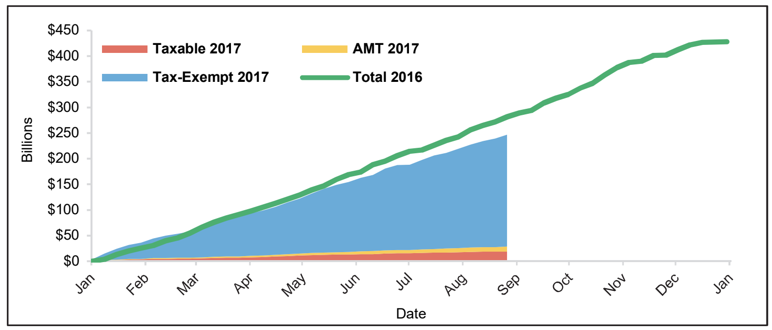
MMD Rates Over Time



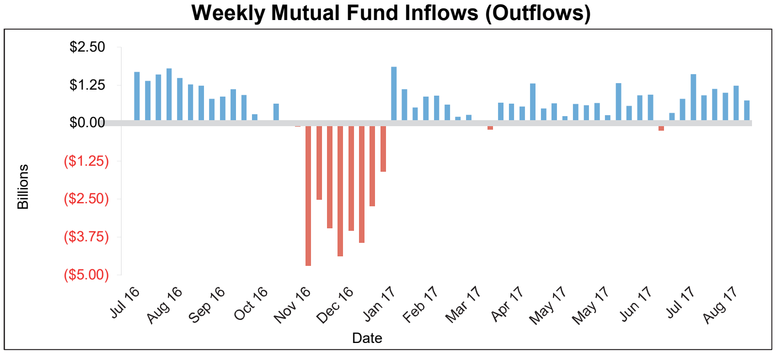
Rate and Spread Movement



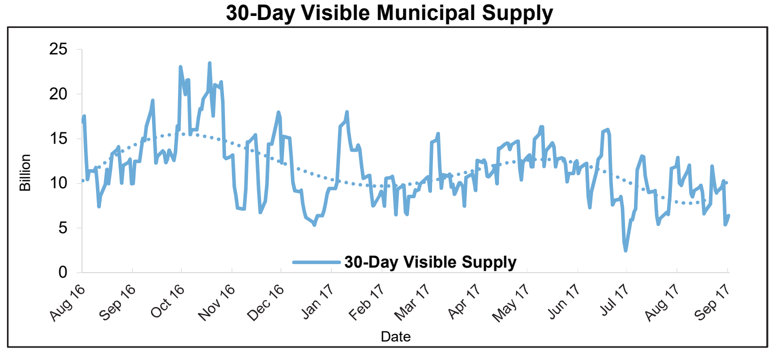
2017 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
09/01/17	8:30 AM	Change in Nonfarm Payrolls	09/13/17	8:30 AM	PPI Ex Food and Energy YoY	09/21/17	10:00 AM	Leading Index
09/01/17	8:30 AM	Unemployment Rate	09/13/17	2:00 PM	Monthly Budget Statement	09/26/17	10:00 AM	Conf. Board Consumer Confidence
09/01/17	8:30 AM	Change in Manufact. Payrolls	09/14/17	8:30 AM	Initial Jobless Claims	09/26/17	10:00 AM	New Home Sales
09/01/17	9:45 AM	Markit US Manufacturing PMI	09/14/17	8:30 AM	CPI MoM	09/26/17	10:00 AM	Richmond Fed Manufact. Index
09/01/17	10:00 AM	ISM Manufacturing	09/14/17	8:30 AM	CPI Ex Food and Energy MoM	09/27/17	7:00 AM	MBA Mortgage Applications
09/01/17	10:00 AM	Construction Spending MoM	09/15/17	8:30 AM	Retail Sales Advance MoM	09/27/17	8:30 AM	Durable Goods Orders
09/01/17	10:00 AM	ISM Prices Paid	09/15/17	8:30 AM	Empire Manufacturing	09/27/17	8:30 AM	Durables Ex Transportation
09/05/17	10:00 AM	Factory Orders	09/15/17	9:15 AM	Industrial Production MoM	09/27/17	10:00 AM	Pending Home Sales MoM
09/06/17	8:30 AM	Trade Balance	09/18/17	4:00 PM	Net Long-term TIC Flows	09/28/17	8:30 AM	GDP Annualized QoQ
09/06/17	9:45 AM	Markit US Composite PMI	09/19/17	8:30 AM	Housing Starts	09/28/17	8:30 AM	Wholesale Inventories MoM
09/06/17	10:00 AM	ISM Non-Manf. Composite	09/19/17	8:30 AM	Import Price Index MoM	09/28/17	8:30 AM	GDP Price Index
09/07/17	8:30 AM	Continuing Claims	09/19/17	8:30 AM	Current Account Balance	09/28/17	8:30 AM	Personal Consumption
09/13/17	8:30 AM	PPI Final Demand MoM	09/20/17	10:00 AM	Existing Home Sales	09/28/17	9:45 AM	Bloomberg Consumer Comfort
09/13/17	8:30 AM	PPI Final Demand YoY	09/20/17	2:00 PM	FOMC Rate Decision (Upper Bound)	09/29/17	8:30 AM	Personal Income
09/13/17	8:30 AM	PPI Ex Food and Energy MoM	09/21/17	9:00 AM	FHFA House Price Index MoM	09/29/17	8:30 AM	Personal Spending

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