



Monthly Market Review

Risk investing is back! A renewed bull market has taken hold as global stock markets recover and the Fed pauses.

Economic Highlights

- The post-holiday euphoria continued through January as stocks extended their strong rebound. In particular, U.S. markets had their strongest January since 1987. Calmer heads prevailed despite a prolonged partial government shutdown in the U.S., a resounding defeat of Prime Minister Theresa May's Brexit plan in the U.K., and slowing economic momentum in the U.S., Europe and China.
- The Trump administration reluctantly agreed to a three-week truce to end the longest government shutdown in U.S. history (at least through February 15). Although government paychecks are flowing once again, the battle lines over border security funding appear deeply entrenched.
- At its January 2019 meeting, the Federal Reserve ("Fed") left rates unchanged, but pivoted monetary policy to a wait-and-see approach as the Committee noted "it will be patient as it determines what future adjustments... may be appropriate." They also shifted from a somewhat singular focus on U.S. employment and inflation to consider a broader range of "global economic and financial developments." So it appears the Fed is firmly on hold for the indefinite future.
- The U.S. labor market marched ahead unabated, creating 304,000 new jobs in January, far exceeding expectations. Although the unemployment rate ticked up to 4%, it was partially due an increase in the labor participation rate and the government shutdown.
- U.S. economic data appears to confirm a modest slowdown as readings of both consumer and business activity decelerated. Housing, auto sales and factory orders all slowed. Manufacturing gauges also moderated due to weakening global demand, ongoing trade disputes, and the fourth quarter plunge in oil prices.

Bond Markets

- Bond market volatility subsided. The U.S. Treasury yield curve remained slightly inverted between 2- and 5- year maturities. U.S. Treasury yields were modestly lower, falling two to eight basis points (bps) (0.02% to 0.08%) over the month.
- As a result of declining yields across the yield curve in January, fixed income returns were strongly positive, with longer duration indices outperforming shorter-term ones. For example, the 3-Month and 2-Year Constant Maturity U.S. Treasury Indexes returned 0.20% and 0.27%, respectively, while the 5-Year and 10-Year indices generated 0.53% and 0.71% total return for the month.
- The "risk-on" recovery led to a sharp contraction in credit spreads across the ratings spectrum. Returns on corporate indices far outpaced returns on comparable-maturity Treasury indices for the month.

Municipal Bond Market

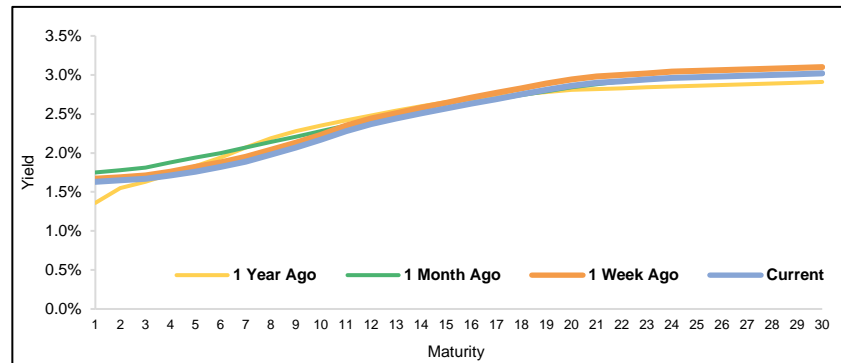
- Municipal new issuance increased in January by 11% to \$24.1 billion from \$21.7 billion the same month last year, according to Municipal Market Monitor (TM3) data.
- January realized positive bond flows throughout the month and ended with net inflows totaling \$4.97 billion, following December's relatively neutral net outflows of \$65 million, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced declining rates across the yield curve in January. The one-year rate decreased 12 basis points (bps) to 1.63%, while the three-year rate dropped 14 bps to 1.67%. The five-year rate fell 18 bps to 1.76%, and the 10-year rate declined 11 bps to 2.17%. On the long end, the 30-year rate remained unchanged at 3.02%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread rose by 1 bp to 48 bps while the Double-A GO Index credit spread remained at 16 bps, according to TM3 data.
- In January, Municipal/Treasury ratios decreased in maturities 10 years and shorter while the long-end remained unchanged. The two-year ratio fell to 67.2% from 71.3% in December, and the five-year ratio fell to 72.5% from 77.1%. The intermediate-term ratio dropped to 75.4% from 79.9%, while the 10-year ratio declined to 82.2% from 85.1%. The 30-year ratio remained unchanged at 100.7%, according to TM3 data.
- The Municipal curve steepened slightly in January, with the AAA MMD 2-year/10-year slope ending at 52 bps, an increase from December's 50 bps. The AAA MMD 2-year/30-year slope also increased to 137 bps from December's 124 bps.

Spot Rates				
	Current 1/31/2019	1 Week Ago 1/24/2019	1 Month Ago 12/31/2018	1 Year Ago 1/31/2018
2-Year	1.65	1.69	1.78	1.55
3-Year	1.67	1.71	1.81	1.63
5-Year	1.76	1.82	1.94	1.83
7-Year	1.89	1.95	2.07	2.07
10-Year	2.17	2.23	2.28	2.35
30-Year	3.02	3.10	3.02	2.91

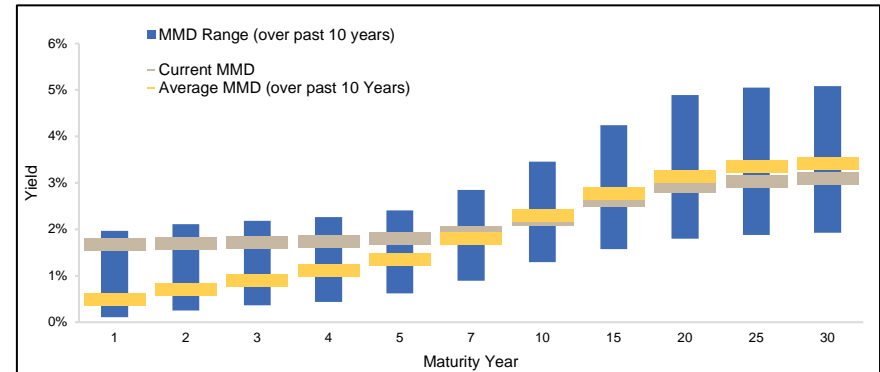
Change in Spot Rate (basis points)			
	1 Week Ago 1/24/2019	1 Month Ago 12/31/2018	1 Year Ago 1/31/2018
2-Year	-4	-13	10
3-Year	-4	-14	4
5-Year	-6	-18	-7
7-Year	-6	-18	-18
10-Year	-6	-11	-18
30-Year	-8	0	11

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.65%	2.46%	1.71
3-Year	1.67%	2.44%	1.72
5-Year	1.76%	2.44%	1.81
7-Year	1.89%	2.52%	1.92
10-Year	2.17%	2.63%	2.06
30-Year	3.02%	3.00%	2.40

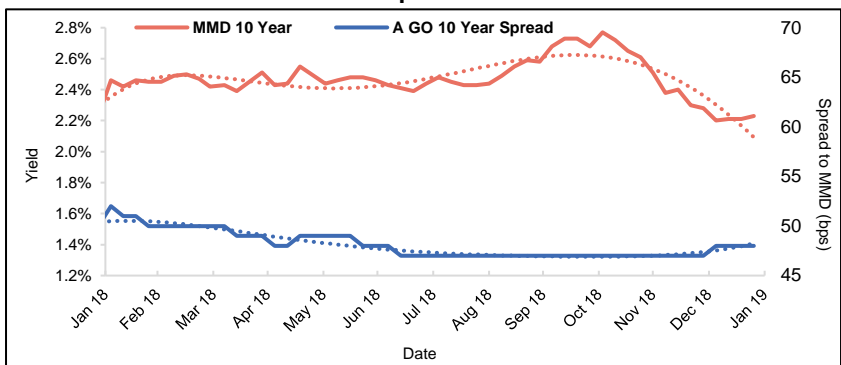
MMD AAA GO Curve



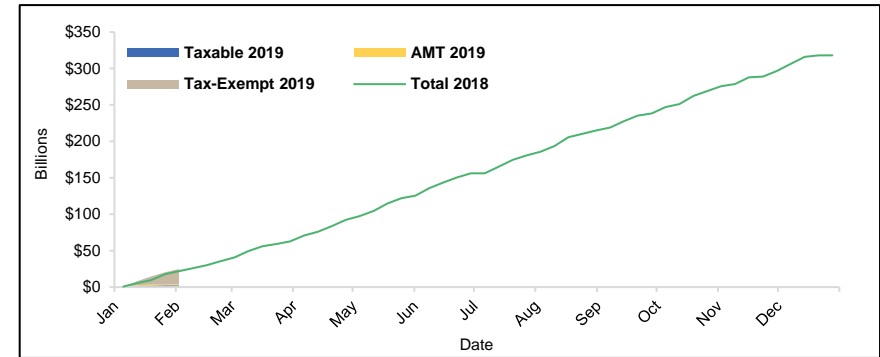
MMD Rates Over Time



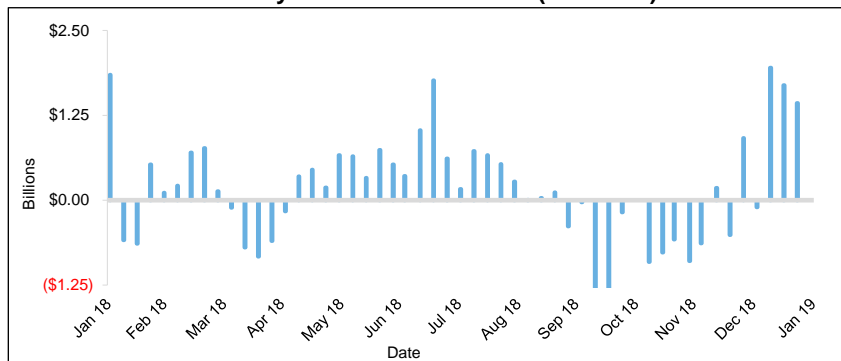
Rate and Spread Movement



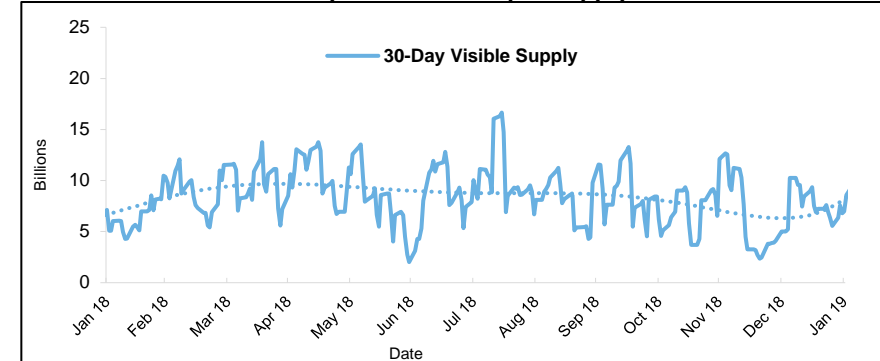
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
02/11/2019	08:30 AM	Revisions: Consumer Price Index	02/15/2019	08:30 AM	Export Price Index MoM	02/21/2019	08:30 AM	Initial Jobless Claims
02/12/2019	06:00 AM	NFIB Small Business Optimism	02/15/2019	08:30 AM	Retail Sales Ex Auto and Gas	02/21/2019	08:30 AM	Continuing Claims
02/12/2019	10:00 AM	JOLTS Job Openings	02/15/2019	08:30 AM	Export Price Index YoY	02/21/2019	09:45 PM	Bloomberg Economic Expectations
02/13/2019	07:00 AM	MBA Mortgage Applications	02/15/2019	08:30 AM	Retail Sales Control Group	02/21/2019	09:45 PM	Bloomberg Consumer Comfort
02/13/2019	08:30 AM	CPI MoM	02/15/2019	09:15 AM	Industrial Production MoM	02/21/2019	09:45 PM	Markit US Manufacturing PMI
02/13/2019	08:30 AM	CPI Ex Food and Energy MoM	02/15/2019	09:15 AM	Capacity Utilization	02/21/2019	09:45 AM	Markit US Services PMI
02/13/2019	08:30 AM	CPI YoY	02/15/2019	09:15 AM	Manufacturing (SIC) Production	02/25/2019	08:30 AM	Chicago Fed Nat Activity Index
02/14/2019	08:30 AM	PPI Final Demand MoM	02/15/2019	10:00 AM	U. of Mich. Sentiment	02/25/2019	10:30 AM	Dallas Fed Manf. Activity
02/14/2019	08:30 AM	PPI Ex Food and Energy MoM	02/15/2019	10:00 AM	U. of Mich. Current Conditions	02/26/2019	09:00 AM	House Price Purchase Index QoQ
02/14/2019	08:30 AM	PPI Ex Food, Energy, Trade MoM	02/15/2019	10:00 AM	U. of Mich. Expectations	02/26/2019	09:00 AM	FHFA House Price Index MoM
02/14/2019	08:30 AM	PPI Final Demand YoY	02/15/2019	10:00 AM	U. of Mich. 1 Yr Inflation	02/26/2019	09:00 AM	S&P CoreLogic CS 20-City YoY NSA
02/14/2019	08:30 AM	PPI Ex Food and Energy YoY	02/19/2019	10:00 AM	NAHB Housing Market Index	02/27/2019	08:30 AM	Durable Goods Orders
02/14/2019	08:30 AM	PPI Ex Food, Energy, Trade YoY	02/20/2019	07:00 AM	MBA Mortgage Applications	02/27/2019	08:30 AM	Durables Ex Transportation
02/15/2019	08:30 AM	Empire Manufacturing	02/20/2019	08:30 AM	Housing Starts	02/27/2019	08:30 AM	Cap Goods Orders Nondef Ex Air
02/15/2019	08:30 AM	Import Price Index MoM	02/20/2019	08:30 AM	Building Permits	02/28/2019	08:30 AM	GDP Price Index

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of January 31, 2019.

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