



Monthly Market Review

Oh for the halcyon days of summer when stocks hit record highs, corporate profits surged, the U.S. economy was firing on all cylinders and the path for interest rates seemed clear.

Economic Highlights

- While underlying economic conditions in the U.S. remain favorable, a combination of uncertainties – U.S. politics, the ongoing trade war with China and a wavering U.S. central bank, slowing global growth, failing Brexit implementation and protests on the streets of Paris – have resulted in a significant stock market correction, surging credit spreads and a partial yield curve inversion.
- Volatility hit the bond markets as U.S. Treasury yields ranged over 40 basis points (bps) (0.4%) in November, and the yield curve inverted between two- and five-year maturities in early December for the first time since 2006. This curve dynamic is potentially an ominous warning sign amid slowing global growth. The question remains: Is a recession on the horizon?
- Federal Reserve (Fed) Chairman Jerome Powell's November speech at the Economic Club of New York took a dovish tone. With an unemployment rate of 3.7% and inflation near the Fed's 2% target, Powell opined that the U.S. economy is close to the Fed's dual objectives of "promoting maximum employment and price stability." Most notably though, he commented that "Interest rates . . . remain just below the broad range of estimates of the level that would be neutral for the economy." This was a significant change from his comments in October that the Fed was "a long way from neutral," and hinted that the pace of future Fed rate hikes may slow in the coming quarters.
- The outlook for economic expansion, measured by gross domestic product, has softened globally. Yet the U.S. labor market remains strong, adding 155,000 new jobs in November (well below expectations), the unemployment rate unchanged at 3.7%, wage growth steady at 3.1% year over year (YoY) and forward inflation rates at or near the Fed's 2% target.

Bond Markets

- The flattening of the U.S. Treasury yield curve is driven by the continued rise in short-term yields (driven by the expectation for near-term Fed tightening), while longer yields declined (will the economy slow to the point of recession?). For example, the yield on three- to 12-month Treasury bills increased less than 5 bps over the month. Meanwhile, yields on Treasury maturities beyond two years declined between 10 and 15 bps.
- As a result, longer-duration fixed-income indices generated solid performance relative to their shorter counterparts. Two-year Treasury benchmarks returned 2.79%; 10-year benchmarks returned 2.99% for the month. Nevertheless, the return on the broad Bloomberg Barclays U.S. Aggregate bond index is still negative for the year.

Municipal Bond Market

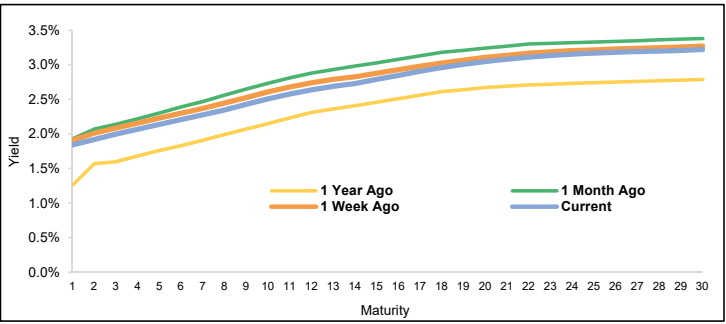
- Municipal new issuance decreased in November by 41.3% to \$26.7 billion from \$45.4 billion the same month last year. Year-to-date (YTD) municipal new issuance is down 16.8% to \$315.2 billion in 2018 from \$378.8 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- November brought negative weekly bond flows throughout the month, ultimately ending with net outflows totaling \$3.15 billion, following October's net outflows of \$4.34 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced a sizable improvement in rates across the yield curve in November. The one-year rate decreased 9 bps to 1.84%, while the three-year rate declined 14 bps to 2%. The five-year rate fell 16 bps to 2.14%, while the 10-year rate dropped 22 bps to 2.51%. On the long end, the 30-year rate dipped 16 bps to 3.22%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spreads and Double-A GO Index credit spreads remained unchanged at 47 and 17 bps, respectively, according to TM3 data.
- In November, Municipal/Treasury ratios fell across the entire yield curve. The two-year ratio fell to 68.3% from 72% in October, and the five-year ratio dropped to 75.2% from 77.1%. The intermediate-term ratio decreased to 77.9% from 80.3%, while the 10-year ratio declined to 83.3% from 86.7% in October. The 30-year ratio also moved lower to 97.3% from 99.7%, according to TM3 data.
- The Municipal curve flattened in November, with the AAA MMD two- through 10-year slope ending at 59 bps, a drop from October's 66 bps. The slope between the AAA MMD two- through 30-year maturities narrowed slightly to 130 bps from October's 131 bps.

Spot Rates				
	Current 11/30/2018	1 Week Ago 11/23/2018	1 Month Ago 10/31/2018	1 Year Ago 11/30/2017
2-Year	1.92	2.01	2.07	1.57
3-Year	2.00	2.09	2.14	1.60
5-Year	2.14	2.23	2.30	1.76
7-Year	2.28	2.37	2.47	1.91
10-Year	2.51	2.61	2.73	2.15
30-Year	3.22	3.27	3.38	2.79

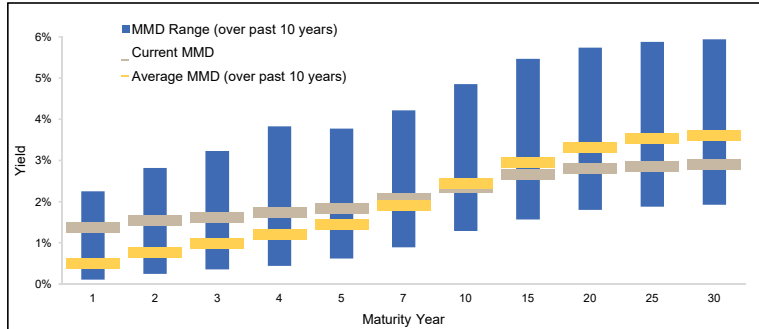
Change in Spot Rate (basis points)			
	1 Week Ago 11/23/2018	1 Month Ago 10/31/2018	1 Year Ago 11/30/2017
2-Year	-9	-15	35
3-Year	-9	-14	40
5-Year	-9	-16	38
7-Year	-9	-19	37
10-Year	-10	-22	36
30-Year	-5	-16	43

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.92%	2.79%	1.97
3-Year	2.00%	2.80%	2.01
5-Year	2.14%	2.81%	2.06
7-Year	2.28%	2.90%	2.13
10-Year	2.51%	2.99%	2.24
30-Year	3.22%	3.29%	2.53

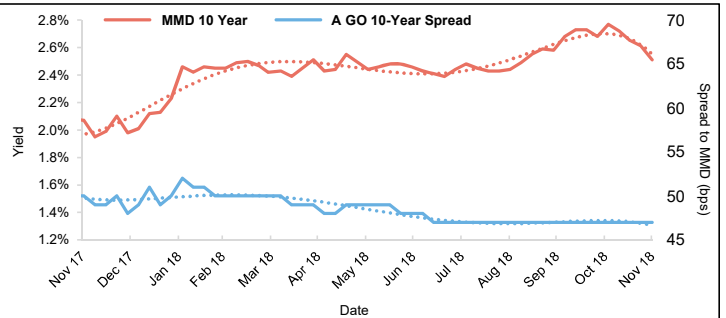
MMD AAA GO Curve



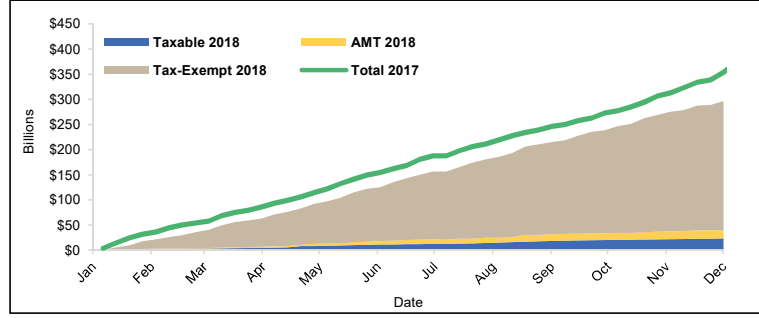
MMD Rates Over Time



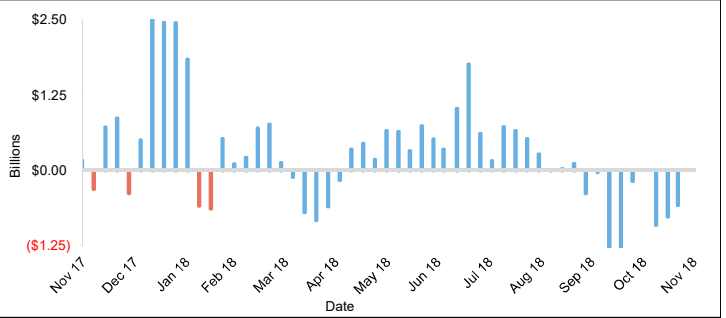
Rate and Spread Movement



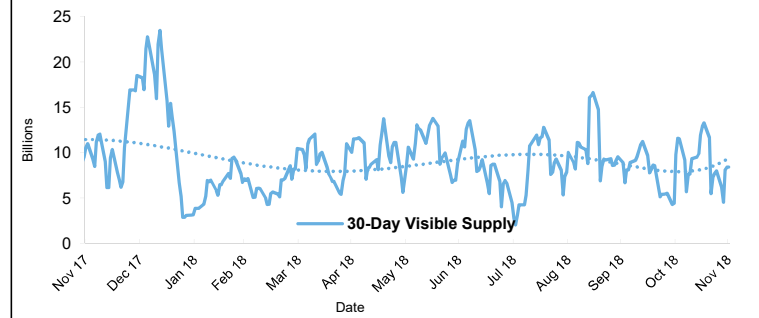
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
12/07/2018	03:00 PM	Consumer Credit	12/14/2018	10:00 AM	Business Inventories	12/21/2018	08:30 AM	GDP Price Index
12/10/2018	10:00 AM	JOLTS Job Openings	12/17/2018	08:30 AM	Empire Manufacturing	12/21/2018	08:30 AM	Core PCE QoQ
12/11/2018	06:00 AM	NFIB Small Business Optimism	12/17/2018	10:00 AM	NAHB Housing Market Index	12/21/2018	10:00 AM	PCE Deflator YoY
12/11/2018	08:30 AM	PPI Final Demand MoM	12/17/2018	04:00 PM	Total Net TIC Flows	12/21/2018	10:00 AM	U. of Mich. 1 Yr Inflation
12/11/2018	08:30 AM	PPI Ex Food and Energy MoM	12/17/2018	04:00 PM	Net Long-term TIC Flows	12/21/2018	10:00 AM	PCE Core MoM
12/11/2018	08:30 AM	PPI Ex Food, Energy, Trade MoM	12/18/2018	08:30 AM	Housing Starts	12/21/2018	10:00 AM	U. of Mich. 5-10 Yr Inflation
12/12/2018	08:30 AM	CPI Ex Food and Energy YoY	12/18/2018	08:30 AM	Housing Starts MoM	12/21/2018	10:00 AM	PCE Core YoY
12/12/2018	08:30 AM	CPI Index NSA	12/19/2018	02:00 PM	FOMC Rate Decision (Lower Bound)	12/21/2018	11:00 AM	Kansas City Fed Manf. Activity
12/12/2018	08:30 AM	CPI Core Index SA	12/19/2018	02:00 PM	Interest Rate on Excess Reserves	12/24/2018	08:30 AM	Chicago Fed Nat Activity Index
12/12/2018	08:30 AM	Real Avg Weekly Earnings YoY	12/20/2018	08:30 AM	Philadelphia Fed Business Outlook	12/26/2018	07:00 AM	MBA Mortgage Applications
12/12/2018	08:30 AM	Real Avg Hourly Earning YoY	12/20/2018	08:30 AM	Initial Jobless Claims	12/26/2018	09:00 AM	S&P CoreLogic CS 20-City MoM SA
12/12/2018	02:00 PM	Monthly Budget Statement	12/20/2018	08:30 AM	Continuing Claims	12/27/2018	10:00 AM	Conf. Board Consumer Confidence
12/13/2018	08:30 AM	Import Price Index MoM	12/20/2018	10:00 AM	Leading Index	12/27/2018	10:00 AM	Conf. Board Present Situation
12/13/2018	08:30 AM	Import Price Index ex Petroleum MoM	12/21/2018	08:30 AM	GDP Annualized QoQ	12/27/2018	10:00 AM	Conf. Board Expectations
12/14/2018	08:30 AM	Retail Sales Advance MoM	12/21/2018	08:30 AM	Personal Consumption	12/28/2018	08:30 AM	Advance Goods Trade Balance

Sources: Bloomberg, Refinitiv and ICI. Unless otherwise noted, all data is presented as of November 30, 2018.

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