



Monthly Market Review

The march to higher interest rates took on a new tone in October as investors shunned longer maturities and riskier investments, beating down the prices of long-term Treasuries and corporate and mortgage-backed securities (MBS), even as signs emerged that the pace of global growth would soon slow.

Economic Highlights

- The U.S. stock market gave up nearly all its gains for the year as investors became concerned about rising rates, the upcoming midterm elections, future corporate earnings, a trade war with China, Brexit, Italian budget woes and general geopolitical uncertainty.
- The advance release of third-quarter U.S. gross domestic product (GDP) showed surprisingly strong growth of 3.5%, boosted by consumer spending, government spending and inventory replenishment. These factors more than offset weak business investment and the biggest drag from trade in 33 years.
- The U.S. economy added 250,000 new jobs in October, well above estimates, while the unemployment rate remained unchanged at 3.7% – the lowest since 1969.
- Average hourly earnings – an important measure of wage growth – rose 3.1% year over year (YoY), the fastest pace since 2009.
- The Federal Reserve's Beige Book—released in advance of the November Federal Open Market Committee (FOMC) meeting—was subdued, noting “modest to moderate growth” in economic activity from a majority of Federal Reserve (Fed) Districts. In particular, manufacturers reported moderate output growth, citing concerns over rising materials and shipping costs, trade uncertainty and difficulty finding qualified workers.
- The U.S. housing market has weakened as rising home prices, higher mortgage rates, a scarcity of materials and lack of construction labor have slowed activity. Residential investment fell 4% in the third quarter, the third consecutive quarter as a drag to GDP growth. A drop in forward indicators, like housing starts and building permits, portends further weakness in the months ahead.
- The U.S. dollar (USD) pushed higher over the month, increasing the drag on exports and corporate earnings, especially those of multinational companies. It also does not bode well for emerging-market (EM) economies because a significant portion of their debt is denominated in USD, which became more costly to pay back.

Bond Markets

- U.S. Treasury yields rose in early October to new highs for this phase of the cycle, with 10-year and two-year yields reaching their highest levels since 2011 and 2008, respectively. But, the sell-off in equity markets triggered a brief rally that left yields higher for the month, though off their highs. The 30-year Treasury led rate increases, rising by 20 basis points (bps) (0.20%) during the month.
- The five- to 30-year part of the Treasury yield curve steepened

during October, partially reversing the strong flattening trend of the past several years.

- Fixed-income returns were mixed for the month. For example, one- and five-year Treasuries returned 0.20% and 0.10%, respectively. Meanwhile, 10- and 30-year maturities returned -0.60% and -3.64%, respectively.

Municipal Bond Market

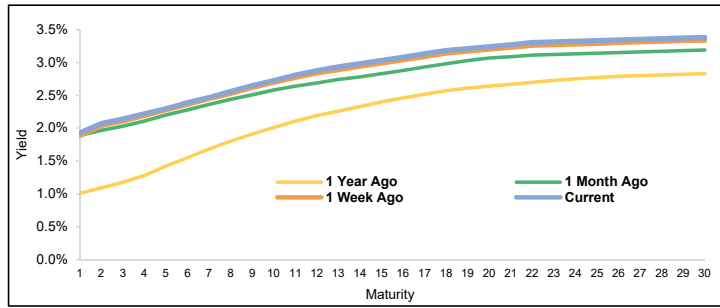
- Municipal new issuance decreased in October by 12.6% to \$35 billion from \$40.1 billion the same month last year. Year-to-date (YTD) municipal new issuance is down 13.9% to \$287.2 billion in 2018 from \$333.4 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- October brought negative weekly bond flows throughout the month, ultimately ending with net outflows totaling \$3.15 billion, following September's net outflows of \$224 million, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced rising rates across the yield curve in October. The one-year rate moved up 4 bps to 1.93%, while the three-year rate increased 11 bps to 2.14%. The five-year rate rose 10 bps to 2.30%, while the 10-year rate climbed 15 bps to 2.73%. On the long end, the 30-year rate jumped 19 bps to 3.38%, 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 October, Municipal/Treasury ratios increased on the short and intermediate terms of the yield curve and decreased slightly on the long term. The two-year ratio climbed to 72% from 70% in September, and the five-year ratio increased to 77.1% from 74.8%. The intermediate-term ratio rose to 80.3% from 78.3%, while the 10-year ratio jumped to 86.7% from 84.6% in September. The 30-year ratio experienced a small decrease to 99.7% from 99.9%, according to TM3 data.
- The Municipal curve steepened in October, with the AAA MMD two- through 10-year slope ending at 66 bps, slightly wider than September's 61 bps. The slope between the AAA MMD two- through 30-year widened to 131 bps from September's 122 bps.

Spot Rates				
	Current 10/31/2018	1 Week Ago 10/24/2018	1 Month Ago 9/28/2018	1 Year Ago 10/31/2017
2-Year	2.07	2.04	1.97	1.09
3-Year	2.14	2.11	2.03	1.18
5-Year	2.30	2.28	2.20	1.42
7-Year	2.47	2.45	2.36	1.68
10-Year	2.73	2.70	2.58	2.01
30-Year	3.38	3.34	3.19	2.83

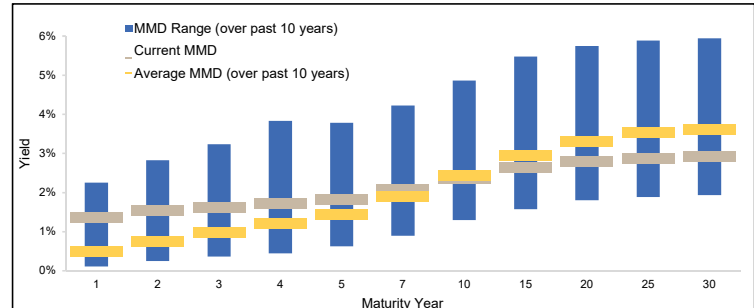
Change in Spot Rate (basis points)			
	1 Week Ago 10/24/2018	1 Month Ago 9/28/2018	1 Year Ago 10/31/2017
2-Year	3	10	98
3-Year	3	11	96
5-Year	2	10	88
7-Year	2	11	79
10-Year	3	15	72
30-Year	4	19	55

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	2.07%	2.87%	2.05
3-Year	2.14%	2.93%	2.13
5-Year	2.30%	2.98%	2.23
7-Year	2.47%	3.06%	2.33
10-Year	2.73%	3.14%	2.45
30-Year	3.38%	3.39%	2.77

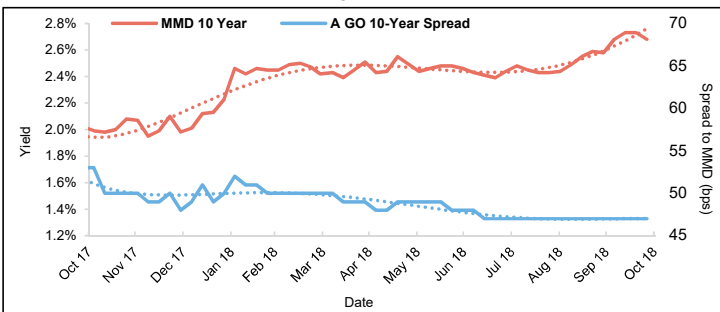
MMD AAA GO Curve



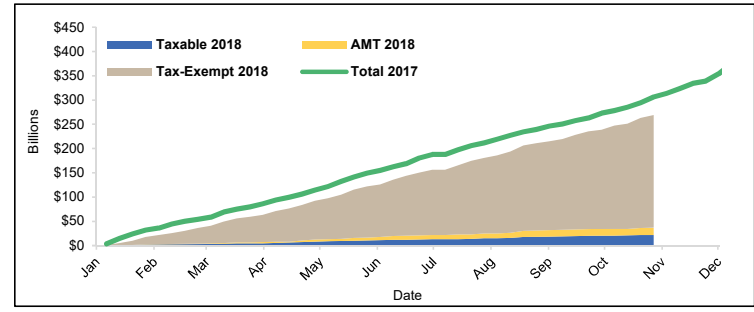
MMD Rates Over Time



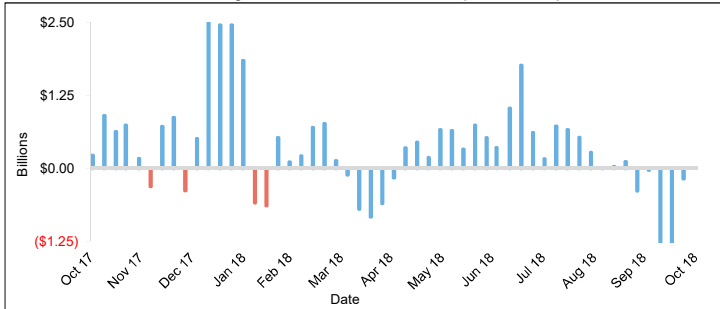
Rate and Spread Movement



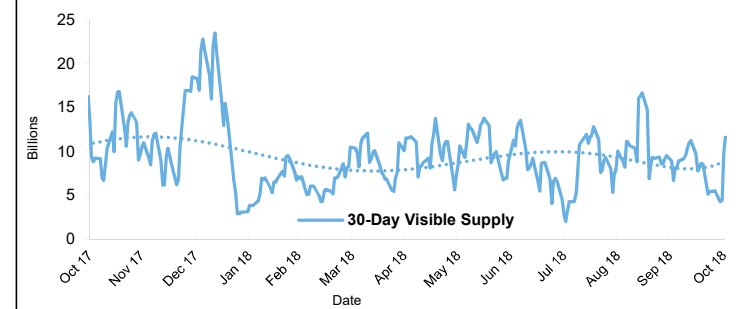
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
11/07/2018	07:00 AM	MBA Mortgage Applications	11/14/2018	07:00 AM	MBA Mortgage Applications	11/16/2018	11:00 AM	Kansas City Fed Manf. Activity
11/07/2018	3:00 PM	Consumer Credit	11/14/2018	08:30 AM	CPI MoM	11/21/2018	07:00 AM	MBA Mortgage Applications
11/08/2018	08:30 AM	Initial Jobless Claims	11/14/2018	08:30 AM	CPI Ex Food and Energy MoM	11/21/2018	08:30 AM	Durable Goods Orders
11/08/2018	08:30 AM	Continuing Claims	11/14/2018	08:30 AM	CPI YoY	11/21/2018	08:30 AM	Durables Ex Transportation
11/08/2018	09:45 AM	Bloomberg Consumer Comfort	11/14/2018	08:30 AM	Real Avg Hourly Earning YoY	11/21/2018	08:30 AM	Cap Goods Orders Nondef Ex Air
11/08/2018	2:00 PM	FOMC Rate Decision (Upper Bound)	11/15/2018	08:30 AM	Empire Manufacturing	11/22/2018	09:45 AM	Bloomberg Economic Expectations
11/08/2018	2:00 PM	FOMC Rate Decision (Lower Bound)	11/15/2018	08:30 AM	Retail Sales Advance MoM	11/23/2018	09:45 AM	Markit US Manufacturing PMI
11/08/2018	2:00 PM	Interest Rate on Excess Reserves	11/15/2018	08:30 AM	Retail Sales Ex Auto MoM	11/23/2018	09:45 AM	Markit US Composite PMI
11/09/2018	08:30 AM	PPI Final Demand MoM	11/15/2018	08:30 AM	Philadelphia Fed Business Outlook	11/26/2018	08:30 AM	Chicago Fed Nat Activity Index
11/09/2018	08:30 AM	PPI Ex Food and Energy MoM	11/15/2018	08:30 AM	Continuing Claims	11/26/2018	10:30 AM	Dallas Fed Manf. Activity
11/09/2018	08:30 AM	PPI Ex Food, Energy, Trade MoM	11/15/2018	09:45 AM	Bloomberg Consumer Comfort	11/27/2018	09:00 AM	FHFA House Price Index MoM
11/09/2018	08:30 AM	PPI Final Demand YoY	11/15/2018	10:00 AM	Business Inventories	11/27/2018	09:00 AM	House Price Purchase Index QoQ
11/09/2018	10:00 AM	U. of Mich. 5-10 Yr Inflation	11/16/2018	09:15 AM	Industrial Production MoM	11/28/2018	07:00 AM	MBA Mortgage Applications
11/13/2018	06:00 AM	NFIB Small Business Optimism	11/16/2018	09:15 AM	Capacity Utilization	11/29/2018	2:00 PM	FOMC Meeting Minutes
11/13/2018	2:00 PM	Monthly Budget Statement	11/16/2018	09:15 AM	Manufacturing (SIC) Production	11/30/2018	09:45 AM	Chicago Purchasing Manager

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of October 31, 2018.

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