



Monthly Market Review

"It's the fundamentals, stupid." This was the lesson of the last month as brief scares of an equity market sell-off and the recent announcement of new tariffs on steel and aluminum gave way to the solid underlying economic fundamentals. Stocks up, bonds down (in price) remains the trend.

Economic Highlights

- Despite the turmoil, the major macroeconomic themes of synchronized global growth, a strong U.S. labor market and rising inflation remained intact.
- Recent economic data has been generally favorable. The U.S. employment report for February showed 313,000 new jobs, many in manufacturing and construction. The upbeat report corresponded with strong readings on factory orders, a 34-year high for small business optimism, and a 17-year high for consumer confidence. However, interest-rate-sensitive sectors, like housing and auto sales, showed some weakness.
- Inflation also began to emerge as unit labor costs, prices paid by manufacturers for raw materials, home prices, the Consumer Price Index (CPI) and the Producer Price Index (PPI) all rose more than expected.
- Jerome Powell made his first public address as Chair of the Federal Reserve (Fed), presenting the semiannual monetary policy report to Congress. His testimony hinted at a continuance of the Fed's gradual but steady rate hikes. He acknowledged that "economic outlook remains strong," and noted that the Fed expects inflation to increase and approach the central bank's 2% objective.

Bond Markets

- Interest rates across the U.S. Treasury yield curve increased in February, with yields on the majority of benchmark Treasury notes reaching multi-year highs. For example, the yield of the two-year Treasury note rose 11 basis points (bps) to end the month at 2.25%, while the 10-year rose 16 bps to 2.86%. As a result, returns of most Treasury indices were uniformly negative.
- The increase in equity market volatility and "risk-off" sentiment of investors in the first weeks of February pushed investment grade (IG) credit spreads noticeably wider. The result was underperformance of most credit sectors during the month relative to comparable U.S. Treasuries.
- The mortgage-backed security (MBS) sector continued to feel the pressures of future supply expectations and

the wind down of MBS holdings from the Fed's balance sheet. The result was a second consecutive month of underperformance.

- The one exception to February's adverse fixed income returns was in the municipal sector, as short- to intermediate-term municipal bonds provided positive returns on both an absolute and Treasury-relative basis. The weight of the year-end supply surge appears to have abated.

Municipal Bond Market

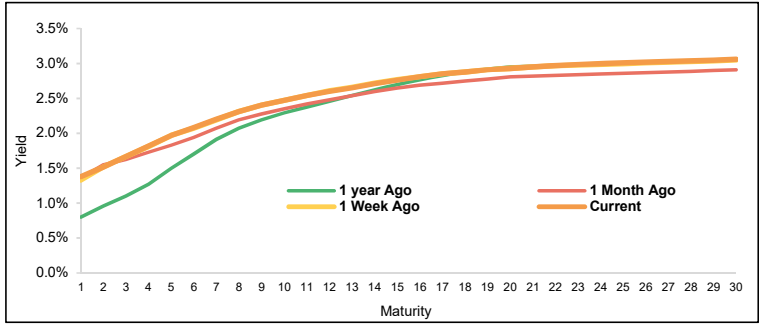
- Municipal new issuance declined in February with a 29.0% drop in municipal bond sales to \$16.6 billion from \$23.4 billion the same month last year, according to the Municipal Market Monitor (TM3) data.
- The first two weeks of February had negative municipal bond flows, while the last two weeks saw positive flows. The inflows were not enough to offset the trend, however, and the month saw net outflows through February 28 at \$700 million, plunging from January's inflows of \$10.5 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Index Data (MMD) curve saw rising rates across the board in February. One-year rates rose 2 bps to 1.38%, while three-year rates increased 4 bps. Five-year rates surged 14 bps and 10-year rates climbed 12 bps to 2.47%. On the long end, 30-year rates also advanced 15 bps to 3.06% according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spreads and Double-A GO Index credit spreads saw tightening of 50 and 20 bps, respectively, according to TM3 data.
- In February, Municipal/Treasury ratios were mixed. The two-year ratio fell to 67.2% from 72.3% in January, and the five-year ratio rose to 74.4% from January's 72.6%. The intermediate-term ratio increased to 78.5% from 77.9% last month, and the 10-year ratio declined to 86.1% from 86.5% last month. The 30-year ratio slipped to 97.7% from 99.0% last month, according to TM3 data.
- The Municipal curve saw some steepening in February with the AAA MMD two- through 10-year slope ending February at 95 bps, which was wider than last month's 80 bps. The slope between the AAA MMD two- through 30-year widened to 154 bps from last month's 136 bps.

Spot Rates				
	Current 2/28/2018	1 Week Ago 2/21/2018	1 Month Ago 1/31/2018	1 Year Ago 2/28/2017
2-Year	1.52	1.52	1.55	0.96
3-Year	1.67	1.67	1.63	1.10
5-Year	1.97	1.97	1.83	1.50
7-Year	2.20	2.19	2.07	1.91
10-Year	2.47	2.47	2.35	2.29
30-Year	3.06	3.05	2.91	3.05

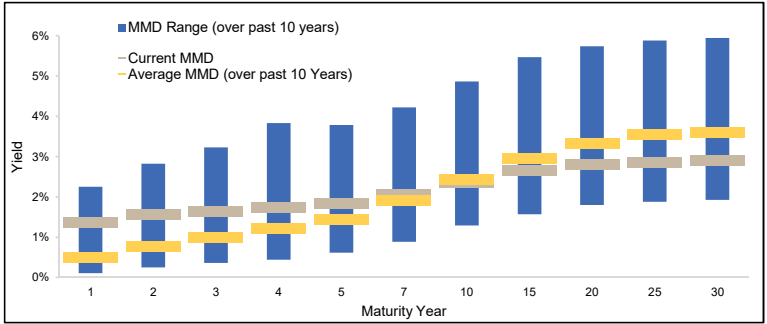
Change in Spot Rate (basis points)			
	1 Week Ago 2/21/2018	1 Month Ago 1/31/2018	1 Year Ago 2/28/2017
2-Year	0	-3	56
3-Year	0	4	57
5-Year	0	14	47
7-Year	1	13	29
10-Year	0	12	18
30-Year	1	15	1

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.52%	2.25%	1.73
3-Year	1.67%	2.41%	1.85
5-Year	1.97%	2.64%	2.01
7-Year	2.20%	2.80%	2.13
10-Year	2.47%	2.86%	2.26
30-Year	3.06%	3.13%	2.52

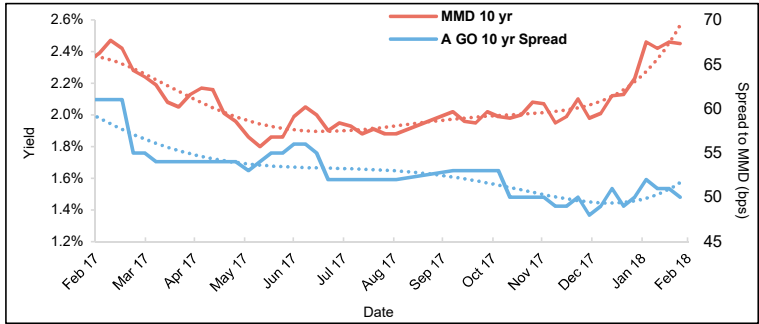
MMD AAA GO Curve



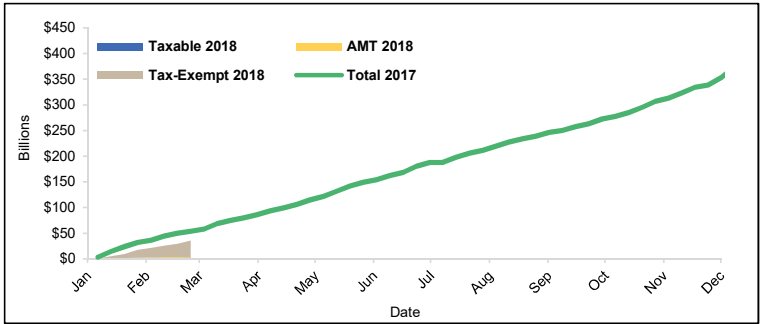
MMD Rates Over Time



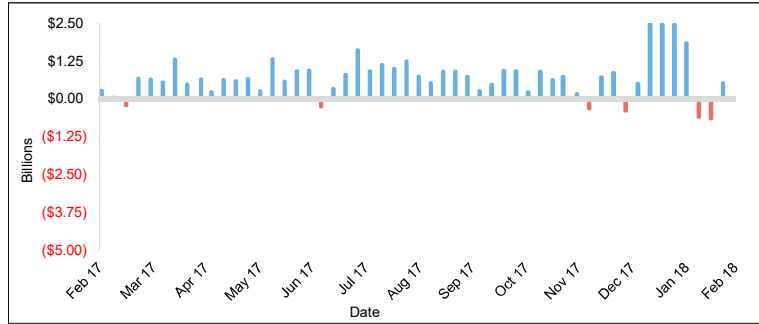
Rate and Spread Movement



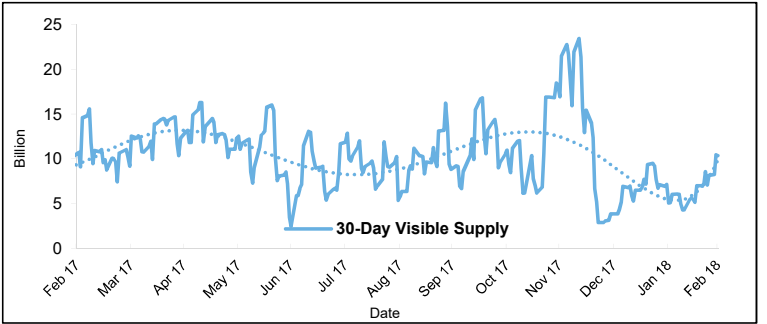
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
03/12/2018	02:00 PM	Monthly Budget Statement	03/16/2018	08:30 AM	Building Permits	03/23/2018	08:30 AM	Durables Ex Transportation
03/13/2018	06:00 AM	NFIB Small Business Optimism	03/16/2018	09:15 AM	Industrial Production MoM	03/23/2018	10:00 AM	New Home Sales
03/13/2018	08:30 AM	CPI MoM	03/16/2018	10:00 AM	JOLTS Job Openings	03/26/2018	08:30 AM	Chicago Fed Nat Activity Index
03/13/2018	08:30 AM	CPI Ex Food and Energy MoM	03/16/2018	10:00 AM	U. of Mich. Sentiment	03/26/2018	10:30 AM	Dallas Fed Manf. Activity
03/14/2018	07:00 AM	MBA Mortgage Applications	03/21/2018	07:00 AM	MBA Mortgage Applications	03/27/2018	09:00 AM	S&P CoreLogic CS 20-City NSA Index
03/14/2018	08:30 AM	Retail Sales Advance MoM	03/21/2018	08:30 AM	Current Account Balance	03/27/2018	10:00 AM	Richmond Fed Manufact. Index
03/14/2018	08:30 AM	Retail Sales Ex Auto and Gas	03/21/2018	10:00 AM	Existing Home Sales	03/27/2018	10:00 AM	Conf. Board Consumer Confidence
03/14/2018	08:30 AM	PPI Final Demand MoM	03/21/2018	02:00 PM	FOMC Rate Decision	03/28/2018	08:30 AM	GDP Annualized QoQ
03/14/2018	08:30 AM	PPI Ex Food and Energy MoM	03/22/2018	08:30 AM	Initial Jobless Claims	03/28/2018	08:30 AM	Wholesale Inventories MoM
03/15/2018	08:30 AM	Empire Manufacturing	03/22/2018	08:30 AM	Continuing Claims	03/28/2018	08:30 AM	Personal Consumption
03/15/2018	08:30 AM	Import Price Index MoM	03/22/2018	09:45 AM	Markit U.S. Manufacturing PMI	03/28/2018	08:30 AM	Core PCE QoQ
03/15/2018	08:30 AM	Initial Jobless Claims	03/22/2018	10:00 AM	Leading Index	03/28/2018	10:00 AM	Pending Home Sales MoM
03/15/2018	08:30 AM	Continuing Claims	03/22/2018	10:45 AM	Markit U.S. Services PMI	03/29/2018	08:30 AM	Personal Income
03/15/2018	08:30 AM	Philadelphia Fed Business Outlook	03/22/2018	11:00 AM	Kansas City Fed Manf. Activity	03/29/2018	08:30 AM	Personal Spending
03/16/2018	08:30 AM	Housing Starts	03/23/2018	08:30 AM	Durable Goods Orders	03/29/2018	08:30 AM	PCE Core MoM

Sources: Bloomberg, Thomson Reuters, and ICI. Unless otherwise noted, all data is presented as of February 28, 2018.

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