



# Monthly Market Review

Is the Trump trade back? At least one leg of the trade that dominated markets after the 2016 election has now returned - rising equity prices propelled stock markets to new highs in recent weeks on the hope for strong growth and market-friendly tax policies. The second leg of the 2016 Trump trade, which led to a sharp rise in interest rates at the end of last year, has failed to recur. In fact, 30-year Treasuries ended November about 0.25% lower than they were in early January.

## Economic Highlights

- Revisions to gross domestic product (GDP) for the third quarter indicated a 3.3% annualized growth pace, the fastest in three years, reflecting strong consumer spending and private investment. An uptick in housing activity, characterized by acceleration in existing and new home sales and continued home price appreciation, affirmed the strength of the housing sector.
- Recent labor market trends remain intact. Including the November jobs report, the economy has created an average of 178,000 new jobs per month since June. The unemployment rate is at or near long-term lows, while wage growth is a bit disappointing.
- The Federal Reserve (Fed) acknowledged in its November meeting minutes that recent inflation weakness may not be transitory, corroborating investor surveys that have reported reduced inflation expectations over the next five to ten years. Nevertheless, because of labor market strength and optimism about economic growth, the Federal Open Market Committee remains on the track to raise rates for a third time this year when they meet next in mid-December.
- Low market volatility has characterized the current stage of the U.S. business cycle, thus far the third longest expansionary phase on record. Enduring market tranquility - what some might consider complacency - has been a constant theme this year. This has spawned the notion that the U.S. economy may have evolved to a post business cycle state where business conditions have reached a sort of steady-state equilibrium.
- Overseas, synchronized global economic expansion in both developed countries and emerging markets has created a supportive macroeconomic backdrop.

## Bond Markets

- Short-term interest rates continued to rise in anticipation of a December Fed rate hike and an elevated supply of short-term U.S. Treasury debt. Two-year Treasury rates rose the most, up 18 basis points (bps) in November. Up to one-third of all new Treasury issuance in coming months is likely to be in T-Bills of one year maturity or less. Short-term Treasury yields appear to have already fully priced in three or four Fed rate hikes in 2018, despite Fed funds futures indicating otherwise.
- In contrast, institutional demand for long-duration bonds has pushed longer-term yields lower, partially fueled by the benign outlook for inflation. Ten-year Treasuries rose three

basis points last month and the spread between 10- and 2-year Treasuries compressed to a decade low.

- Short/intermediate government benchmarks posted modest positive returns in November with the Barclays 1-3 year Treasury up 0.03%. Long-maturity Treasuries returned 0.33% for the month.
- Corporate sectors generally produced strong returns as yield spreads continued to narrow, reaching a new post-Recession low.
- The mortgage-backed securities (MBS) landscape remained stable, despite initiation of the Fed's balance sheet reduction measures. Once the pace of tapering increases in future months, the MBS sector may underperform.

## Municipal Bond Market

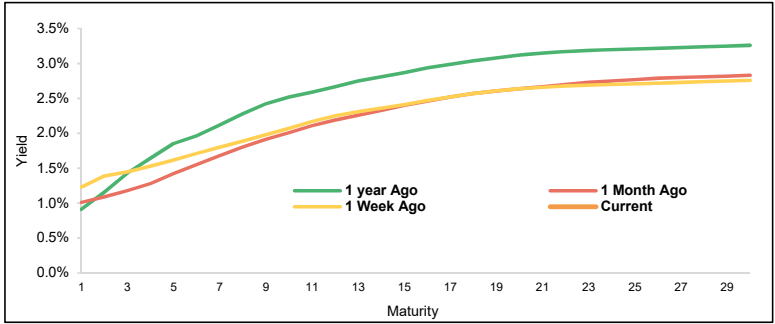
- Municipal new issuance increased in November with a 22.8% jump in municipal bond sales to \$40.8 billion from \$33.3 billion the same month last year. Year-to-date (YTD) sales are down 14.4% to \$368.7 billion from \$430.8 billion the same period last year according to the Municipal Market Monitor (TM3) data.
- Municipal bond flows were positive throughout the month with inflows through the week of November 25 at \$2.7 billion, climbing from October's \$2.6 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Index Data (MMD) curve saw rates rising across the short-end. 1-year rates rose 25 bps while 3-year rates rose 42 bps, 5-year rates rose 34 bps and 10-year rates rose 14 bps. On the long end, the 30-year tightened 4 bps to 2.79% according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spreads and Double-A GO Index credit spreads saw changes to 51 and 21 bps respectively, according to TM3 data.
- In November, Municipal/Treasury ratios increased across the board, except for the 30-year ratio. The two-year ratio soared to 87.9% from 67.3% in October, and the five-year ratio climbed to 82.1% from October's 70.3%. The intermediate-term ratio rose to 82.6% from 75.4% last month, and the 10-year ratio also increased to 89.1% from 84.7% last month. The 30-year decreased to 98.6% from 98.9% last month, according to TM3 data.
- On November 9, the House Ways and Means Committee advanced its tax reform legislation, the Tax Cuts and Jobs Act, to the House floor, where it was passed by the House on November 16 (the Senate subsequently passed its version of tax reform, moving Congress into a conference committee to reach a final compromise). Detrimental to municipal bond issuers, the House bill includes the elimination of both tax-exempt advance refundings and private activity bonds. With significant reductions to other taxes (e.g., a 20% corporate tax rate), the House bill could diminish the relative attractiveness of tax-exempt debt, when compared to taxable investments, for many investors.

Spot Rates				
	Current 11/30/2017	1 Week Ago 11/22/2017	1 Month Ago 10/31/2017	1 Year Ago 11/30/2016
2 year	1.57	1.39	1.09	1.16
3 year	1.60	1.45	1.18	1.43
5 year	1.76	1.62	1.42	1.85
7 year	1.91	1.80	1.68	2.12
10 year	2.15	2.07	2.01	2.52
30 year	2.79	2.76	2.83	3.26

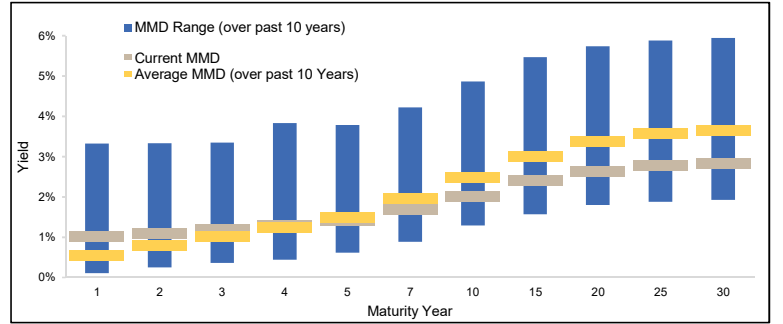
Change in Spot Rate (basis points)			
	1 Week Ago 11/22/2017	1 Month Ago 10/31/2017	1 Year Ago 11/30/2016
2 year	18	48	41
3 Year	15	42	17
5 Year	14	34	-9
7 Year	11	23	-21
10 Year	8	14	-37
30 Year	3	-4	-47

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2 year	1.57%	1.78%	1.24
3 year	1.60%	1.90%	1.34
5 year	1.76%	2.14%	1.55
7 year	1.91%	2.31%	1.70
10 year	2.15%	2.42%	1.85
30 year	2.79%	2.83%	2.22

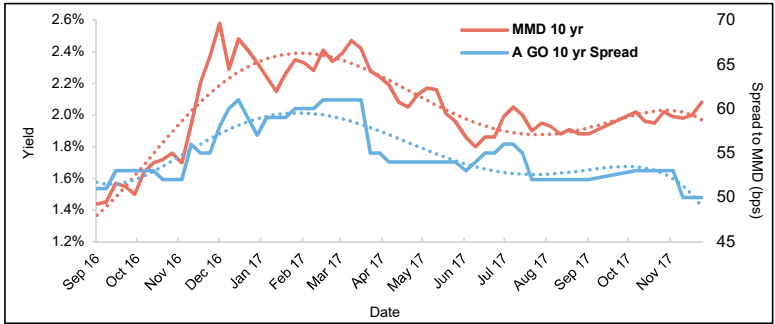
**MMD AAA G.O. Curve**



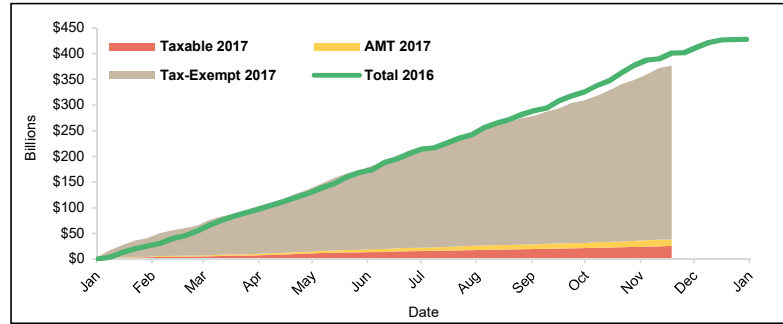
**MMD Rates Over Time**



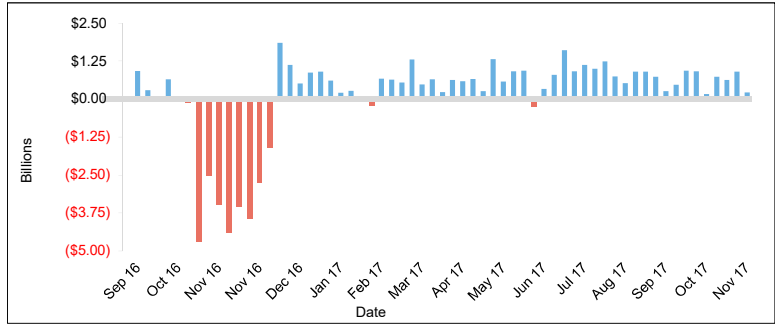
**Rate and Spread Movement**



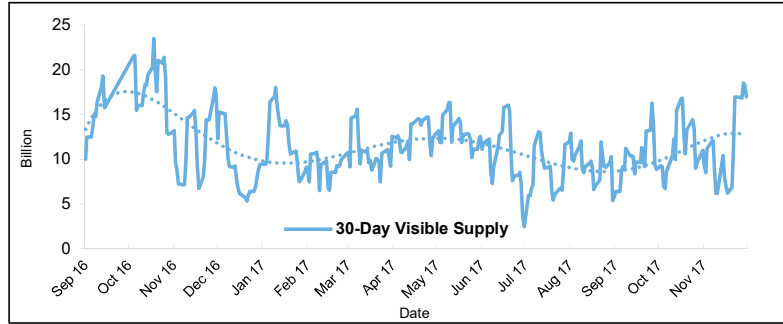
**2017 Cumulative Issuance**



**Weekly Mutual Fund Inflows (Outflows)**



**30-Day Visible Municipal Supply**



**Economic Calendar**

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
12/01/17	10:00 AM	ISM Manufacturing	12/08/17	8:30 AM	Labor Force Participation Rate	11/17/17	8:30 AM	Core PCE QoQ
12/04/17	10:00 AM	Factory Orders	12/08/17	8:30 AM	Underemployment Rate	11/18/17	8:30 AM	PCE Core MoM
12/04/17	10:00 AM	Durable Goods Orders	12/08/17	10:00 AM	U. of Mich. Sentiment	11/19/17	8:30 AM	PCE Core YoY
12/05/17	8:30 AM	Trade Balance	12/08/17	10:00 AM	U. of Mich. 1 Yr Inflation	11/20/17	10:00 AM	New Home Sales
12/06/17	7:00 AM	MBA Mortgage Applications	12/08/17	10:00 AM	U. of Mich. 5-10 Yr Inflation	11/21/17	10:00 AM	New Home Sales MoM
12/06/17	8:30 AM	Nonfarm Productivity	12/12/17	6:00 AM	NFIB Small Business Optimism	11/22/17	10:00 AM	U. of Mich. Sentiment
12/07/17	7:30 AM	Challenger Job Cuts YoY	12/12/17	8:30 AM	PPI Ex Food and Energy MoM	11/23/17	11:00 AM	Kansas City Fed Manf. Activity
12/07/17	8:30 AM	Initial Jobless Claims	12/12/17	8:30 AM	PPI Ex Food and Energy YoY	11/24/17	10:30 AM	Dallas Fed Manf. Activity
12/07/17	9:45 AM	Bloomberg Consumer Comfort	12/13/17	7:00 AM	MBA Mortgage Applications	11/25/17	7:00 AM	MBA Mortgage Applications
12/07/17	12:00 PM	Household Change in Net Worth	12/13/17	8:30 AM	CPI MoM	11/26/17	8:30 AM	Initial Jobless Claims
12/07/17	3:00 PM	Consumer Credit	12/13/17	8:30 AM	CPI YoY	11/27/17	8:30 AM	Advance Goods Trade Balance
12/08/17	8:30 AM	Change in Nonfarm Payrolls	12/13/17	2:00 PM	FOMC Rate Decision (Upper Bound)	11/28/17	8:30 AM	Wholesale Inventories MoM
12/08/17	8:30 AM	Unemployment Rate	12/13/17	2:00 PM	FOMC Rate Decision (Lower Bound)	11/29/17	8:30 AM	Continuing Claims
12/08/17	8:30 AM	Average Hourly Earnings MoM	12/19/17	8:30 AM	Housing Starts	11/30/17	8:30 AM	Retail Inventories MoM
12/08/17	8:30 AM	Average Hourly Earnings YoY	12/21/17	8:30 AM	GDP Annualized QoQ	12/01/17	9:45 AM	Chicago Purchasing Manager

Sources: Bloomberg, Thomson Reuters, and ICI. Unless otherwise noted, all data is presented as of 11/30/2017.

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