



Monthly Market Review

"I say stop and you say go go go." — The Beatles

Economic Highlights

- Former Vice President Joe Biden was declared the presumptive winner of the 2020 presidential election, flipping key battleground states to secure the victory in a strongly contested race amid record voter turnout. As the dust settles from the election, Americans cope with a renewed surge of the COVID-19 pandemic. Daily coronavirus infections reached record levels multiple times in mid-November, with some states experiencing dangerous levels of hospitalizations, which prompted a new round of public health restrictions.
- The financial markets reacted favorably to the election outcome and largely discounted the pandemic surge. Democrats failed to win an overwhelming mandate, reducing the likelihood of extreme tax or fiscal policy changes. The S&P 500 (S&P) rose 7.3% during election week, its best weekly gain since April.
- As votes were still being counted, the Federal Reserve (Fed) met in the first week of November, affirming the 0-0.25% target range for fed funds rate while maintaining the current level of monthly asset purchases. Previously, the Fed had reduced the minimum loan size on its Main Street Lending Program to help "better target support to smaller businesses that employ millions of workers and are facing continued revenue shortfalls due to the pandemic."
- The U.S. economy expanded at a record 33.1% annual rate in the third quarter of 2020, recovering a significant portion of the economic loss from COVID-19 that sent the economy to its record contraction in the second quarter (-31.4%). The strong rebound was fueled by increased consumption, business and residential investment, and exports. Despite the rebound, U.S. gross domestic product remains about 3.5% below the year-end 2019 levels. The economy has since entered what is likely to be a slower phase of recovery.
- Personal income increased more than expected in September, rising 0.9% following a 2.7% decline in August, while personal spending was up 1.4%. Consumer confidence has been mixed as the pandemic continues to cloud the economic outlook.
- Again, the labor market surprised the upside as the U.S. economy added 661,000 jobs in October, and the jobless rate fell to 6.9%. The number of Americans filing for weekly unemployment benefits is also improving. However, the jobless rate is still elevated, and about nine million fewer people are working now than at the end of 2019.
- After a scorching summer sales season, the housing market may show seasonal cooling signs even as strong demand continues. While existing home sales were strong, new and pending home sales and mortgage applications fell in September.

Bond Markets

- Very low rates mean even small moves have notable effects on returns. In October, 10-year Treasury yields rose nearly 20 basis points (bps) and continued to move higher post-election in response to looming Treasury supply and better-than-projected economic data. The yields on shorter maturities were relatively unchanged and anchored near zero. Bond market volatility also rose.
- As a result of the steeper Treasury curve, longer-duration bonds underperformed their shorter counterparts. The return on the 3-month Treasury Index was 0.01% for the month, while the 5- and 10-year Treasury Indices returned -0.48% and -1.64%, respectively.
- Corporate issuance cooled in October, as expected. The slowdown contributed to tighter credit spreads, with many high-quality issuers now back to pre-COVID-19 levels. Returns on corporate bonds exceeded those on like-maturity Treasuries.

Equity Markets

- Equity volatility popped as stimulus optimism, rising coronavirus infection rates and the election all weighed on uncertainty. The S&P fell more than 2% and the Dow was down 4.6%, but this was reversed in a burst of post-election optimism. By mid-November, domestic equity indices were at new highs.
- Developed market equities mirrored the performance of domestic markets, falling in October, then rallying to highs in mid-November. The U.S. Dollar Index (DXY) marginally strengthened over the month, but that strength may be challenged as the U.S. grapples with the resurging coronavirus.

PFM Strategy Recap

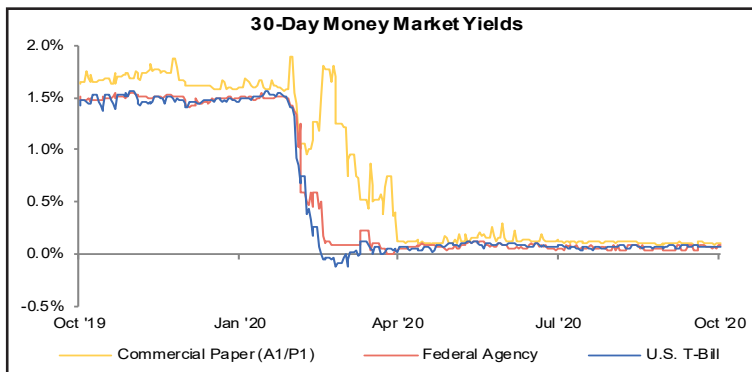
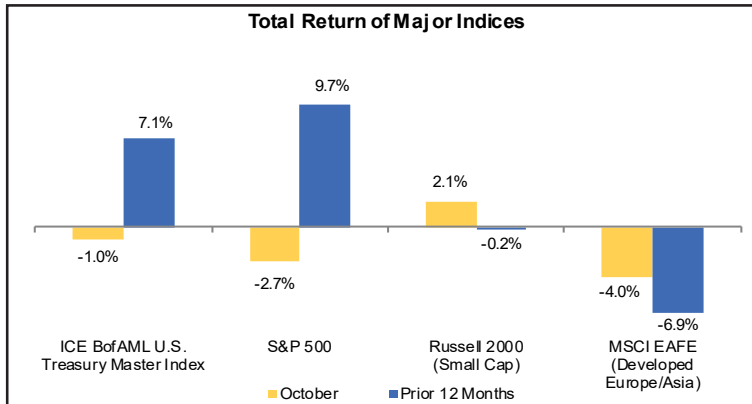
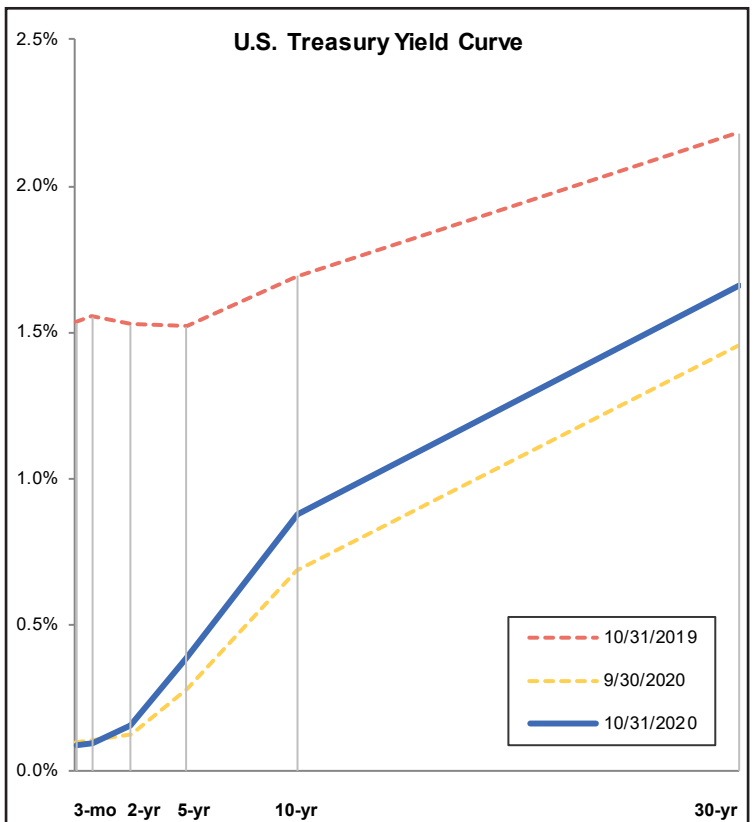
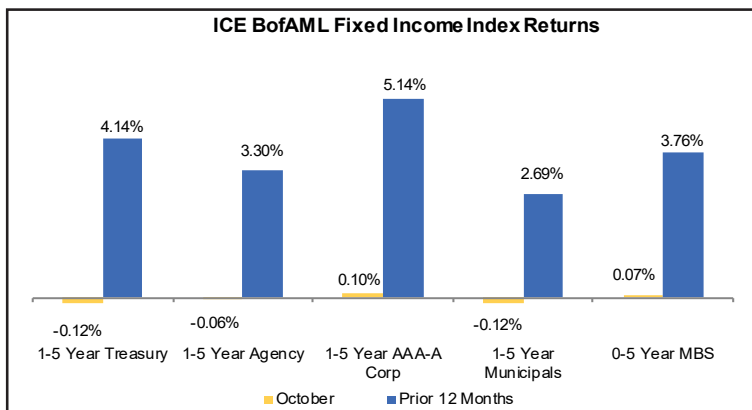
- Economic uncertainty is driven by the pandemic, and central banks in the U.S. and Europe determined to keep rates low provide good reason to maintain neutral durations. Meanwhile, with narrow bond spreads, there is no strong incentive to extend risk by expanding allocations to non-Treasury sectors.
- Federal agency spreads are now back to low single digits out to maturities inside five years. As a result, we will likely reduce future allocations.
- Corporate spreads retraced lower, driven by low supply and strong investor appetite. We will continue to be selective while maintaining core corporate allocations.
- AAA-rated asset-backed securities (ABS) spreads also reverted to pre-pandemic levels. Here too, we will exercise caution and seek to maintain but not expand allocations.
- Mortgage-backed securities (MBS) are suffering headwinds with forbearance rates at their lowest levels since April, and elevated refinancing activity is limiting their value at current prices.

U.S. Treasury Yields				
Duration	Oct 31, 2019	Sep 30, 2020	Oct 31, 2020	Monthly Change
3-Month	1.54%	0.10%	0.09%	-0.01%
6-Month	1.56%	0.10%	0.10%	0.00%
2-Year	1.53%	0.13%	0.16%	0.03%
5-Year	1.52%	0.28%	0.39%	0.11%
10-Year	1.69%	0.69%	0.88%	0.19%
30-Year	2.18%	1.46%	1.66%	0.20%

Yields by Sector and Maturity as of October 31, 2020				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.09%	0.06%	0.18%	--
6-Month	0.10%	0.06%	0.24%	--
2-Year	0.16%	0.19%	0.36%	0.33%
5-Year	0.39%	0.49%	0.81%	0.63%
10-Year	0.88%	1.16%	1.70%	1.25%
30-Year	1.66%	1.84%	2.84%	1.87%

Spot Prices and Benchmark Rates				
Index	Oct 31, 2019	Sep 30, 2020	Oct 31, 2020	Monthly Change
1-Month LIBOR	1.78%	0.15%	0.14%	-0.01%
3-Month LIBOR	1.90%	0.23%	0.22%	-0.01%
Effective Fed Funds Rate	1.58%	0.09%	0.09%	0.00%
Fed Funds Target Rate	1.75%	0.25%	0.25%	0.00%
Gold (\$/oz)	\$1,515	\$1,888	\$1,880	-\$8
Crude Oil (\$/Barrel)	\$54.18	\$40.22	\$35.79	-\$4.43
U.S. Dollars per Euro	\$1.12	\$1.17	\$1.16	-\$0.01

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Existing Home Sales MoM	26-Oct	Sep	-3.5%	1.4%
Consumer Confidence	27-Oct	Oct	100.9	102.0
GDP Annualized QoQ	29-Oct	3Q A	33.1%	32.0%
PCE Core Deflator YoY	30-Oct	Sep	1.5%	1.7%
ISM Manufacturing	2-Nov	Oct	59.3	56.0
Change in Nonfarm Payrolls	6-Nov	Oct	638k	580k
Unemployment Rate	6-Nov	Oct	6.9%	7.6%



Source: Bloomberg. Data as of October 31, 2020, unless otherwise noted. The views expressed constitute the perspective of PFM Asset Management LLC at the time of distribution and are subject to change. The content is based on sources generally believed to be reliable and available to the public; however, PFM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. Investment advisory services are provided by PFM Asset Management LLC, which is registered with the SEC under the Investment Advisers Act of 1940. For more information regarding PFM's services or entities, please visit www.pfm.com.

