



Monthly Market Review

“Want to ride a roller coaster?” Try the bond market, where the 10-year Treasury yield fluctuated nearly 40 basis points (bps) in May.

Economic Highlights

- The month began by riding on the coattails of April, with strong readings on the labor market, consumer and business confidence, and record corporate profits. Geopolitical concerns (e.g., North Korea, tariffs and Russia) were seemingly pushed to the sidelines as interest rates rose to new cycle highs and equity prices rebounded from the volatile market conditions of earlier this year.
- Italy’s woes triggered a sizable late-month sell-off in stocks around the globe, while also causing a flight-to-quality in the bond markets that briefly pushed yields lower by 30 to 40 bps during a few days. The markets began to recover in early June despite Italy’s installation of a new populist prime minister.
- The unemployment rate fell to 3.8% in May, matching its lowest level since December 1969. Similarly, the U.S. reached multi-decade lows in initial and continuing jobless claims.
- The May labor market report indicated a net increase of 223,000 jobs, outpacing expectations by 33,000. During the past year, the economy has added about 200,000 jobs per month, on average. At the same time, average hourly earnings—an important measure of wage growth—has risen a respectable, but not spectacular, 2.7% year-over-year (YOY).
- The second estimate for first-quarter Gross Domestic Product (GDP) was revised slightly lower to 2.2%. Growth averaged 2.8% during the past year, the best reading in two-and-a-half-years.
- Meanwhile, inflation, as measured by the YOY Personal Consumption Expenditure (PCE) Index, held at 1.8% and is closing in on the Federal Reserve’s (Fed) 2% inflation target.
- As expected, the Federal Open Market Committee (FOMC) left short-term rates unchanged at its meeting in May, keeping the current range of 1.50% to 1.75%. The Fed is widely expected to hike rates as the year progresses, though the question of how many hikes—most observers see two or three—remains unknown.

Bond Markets

- The U.S. Treasury yield curve flattened noticeably throughout May, as short-term yields rose while yields on longer maturities fell. For example, the yield of the three-month Treasury bill (T-bill) rose 10 bps to end the month at 1.90%, while the 10-year note fell nine bps to 2.86%. After

breaching the psychological barrier of 3% during the month, the 10-year Treasury retreated by 37 bps from an intra-month high of 3.12% to an intra-month low of 2.75%, ending the month at 2.86%.

- As a result of the flight-to-quality trade near month-end, longer-maturity fixed-income indices outperformed their short-term counterparts in May. For example, the 10-year constant maturity Treasury index returned 1.11% for the month, while the three-month T-bill returned just 0.15%.
- Despite marginally wider credit spreads, investment-grade corporate bonds performed generally in line with Treasury indices with comparable durations, as incremental income earned on corporates mitigated the adverse price impact of wider spreads.

Municipal Bond Market

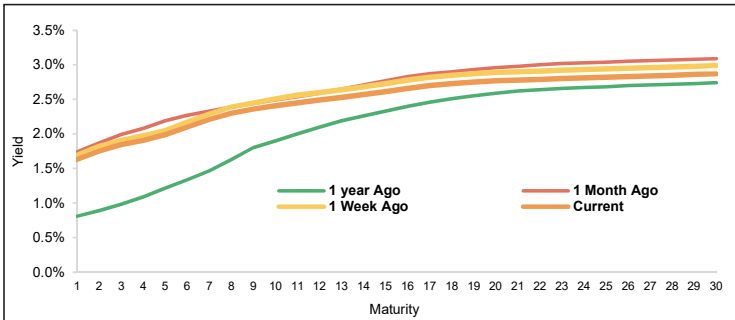
- Municipal new issuance slowed in May with municipal bond sales dropping 17.1% to \$32.1 billion from \$38.7 billion the same month last year, according to the Municipal Market Monitor (TM3) data.
- May saw positive bond flows in the last three weeks of the month, offsetting the first week’s negative bond flows. Inflows totaled \$0.8 billion, a reversal of April’s outflows of \$1.7 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Index Data (MMD) curve saw falling rates across the short and long end of the curve in May. The one-year rate declined 11 bps to 1.63%, while the three-year rate dropped 14 bps to 1.99%. The five-year rate also dropped 20 bps to 1.99% and 10-year rates dipped eight bps to 2.41%. On the long end, the 30-year rate also diminished 14 bps to 3.09%, 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 49 and 19 bps respectively, according to TM3 data.
- In May, Municipal/Treasury ratios decreased in the short and long term. The two-year ratio fell to 72.9% from 75.2% in April, and the five-year ratio declined to 74.3% from 78.6% last month. The intermediate-term ratio decreased to 79.5% from 80.4% in April, and the 10-year ratio increased to 85.2% from 84.8% last month. The 30-year ratio dropped to 95.7% from 99.9% last month, according to TM3 data.
- The Municipal curve saw some flattening in the long end of the curve in May with the AAA MMD two- through 10-year slope ending at 66 bps, wider than last month’s 62 bps. The slope between the AAA MMD two- through 30-year tightened to 112 bps from April’s 122 bps.

Spot Rates				
	Current 5/31/2018	1 Week Ago 5/24/2018	1 Month Ago 4/30/2018	1 Year Ago 5/31/2017
2-Year	1.75	1.82	1.87	0.89
3-Year	1.85	1.91	1.99	0.98
5-Year	1.99	2.05	2.19	1.22
7-Year	2.21	2.29	2.33	1.47
10-Year	2.41	2.51	2.49	1.90
30-Year	2.87	2.99	3.09	2.74

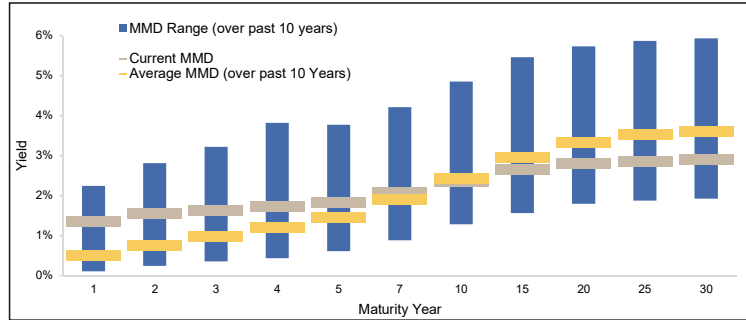
Change in Spot Rate (basis points)			
	1 Week Ago 5/24/2018	1 Month Ago 4/30/2018	1 Year Ago 5/31/2017
2-Year	-7	-12	86
3-Year	-6	-14	87
5-Year	-6	-20	77
7-Year	-8	-12	74
10-Year	-10	-8	51
30-Year	-12	-22	13

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.75%	2.43%	1.79
3-Year	1.85%	2.55%	1.90
5-Year	1.99%	2.70%	2.05
7-Year	2.21%	2.81%	2.16
10-Year	2.41%	2.86%	2.27
30-Year	2.87%	3.03%	2.49

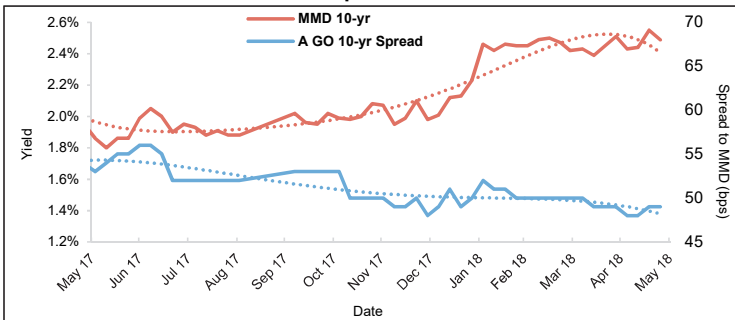
MMD AAA G.O. Curve



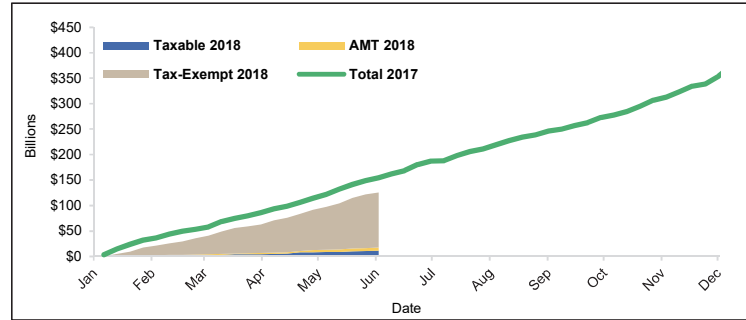
MMD Rates Over Time



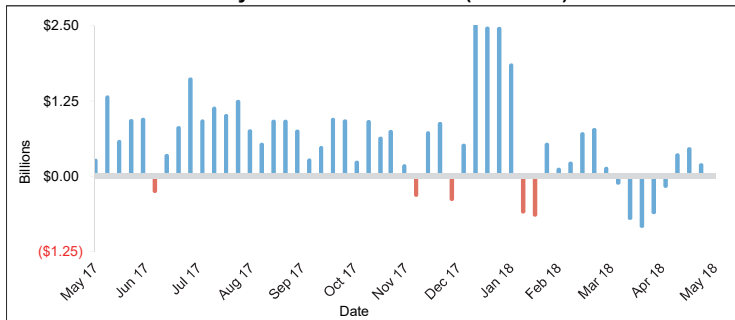
Rate and Spread Movement



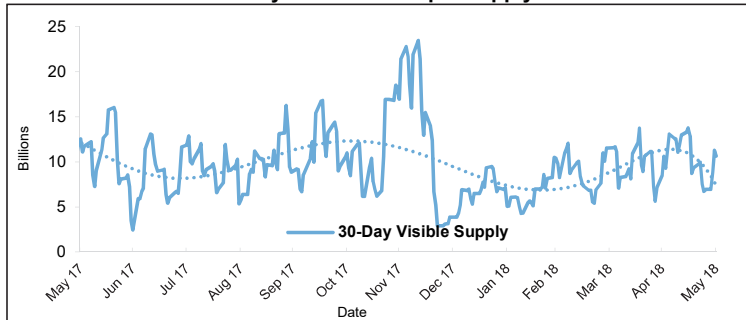
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
6/12/2018	07:00 AM	NFIB Small Business Optimism	6/20/2018	07:00 AM	MBA Mortgage Applications	12:00 AM	07:00 AM	MBA Mortgage Applications
06/12/18	07:00 AM	CPI MoM	06/20/18	07:00 AM	Current Account Balance	12:00 AM	07:00 AM	Durable Goods Orders
06/12/18	07:00 AM	Monthly Budget Statement	06/20/18	07:00 AM	Existing Home Sales	12:00 AM	07:00 AM	Wholesale Inventories MoM
06/13/18	07:00 AM	MBA Mortgage Applications	06/21/18	07:00 AM	Initial Jobless Claims	12:00 AM	07:00 AM	Pending Home Sales MoM
06/13/18	07:00 AM	PPI Final Demand MoM	06/21/18	07:00 AM	Continuing Claims	12:00 AM	07:00 AM	Pending Home Sales NSA YoY
06/13/18	07:00 AM	FOMC Rate Decision	06/21/18	07:00 AM	Philadelphia Fed Business Outlook	12:00 AM	07:00 AM	GDP Annualized QoQ
06/14/18	07:00 AM	Retail Sales Advance MoM	06/21/18	07:00 AM	Leading Index	12:00 AM	07:00 AM	Personal Consumption
06/14/18	07:00 AM	Import Price Index MoM	06/22/18	07:00 AM	Markit US Manufacturing PMI	12:00 AM	07:00 AM	Core PCE QoQ
06/14/18	07:00 AM	Initial Jobless Claims	06/22/18	07:00 AM	Markit US Services PMI	12:00 AM	07:00 AM	Initial Jobless Claims
06/14/18	07:00 AM	Continuing Claims	06/25/18	07:00 AM	Chicago Fed Nat Activity Index	12:00 AM	07:00 AM	Continuing Claims
06/15/18	07:00 AM	Empire Manufacturing	06/25/18	07:00 AM	New Home Sales	12:00 AM	07:00 AM	Kansas City Fed Manf. Activity
06/15/18	07:00 AM	Industrial Production MoM	06/25/18	07:00 AM	Dallas Fed Manf. Activity	12:00 AM	07:00 AM	PCE Core YoY
06/15/18	07:00 AM	U. of Mich. Sentiment	06/26/18	07:00 AM	S&P CoreLogic CS 20-City NSA Index	12:00 AM	07:00 AM	Personal Income
06/19/18	07:00 AM	Housing Starts	06/26/18	07:00 AM	Richmond Fed Manufacturing Index	12:00 AM	07:00 AM	Personal Spending
06/19/18	07:00 AM	Building Permits	06/26/18	07:00 AM	Conf. Board Consumer Confidence	12:00 AM	07:00 AM	U. of Mich. Sentiment

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

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