



Monthly Market Review

“Injustice anywhere is a threat to justice everywhere.” — Martin Luther King, Jr.

Economic Highlights

- U.S. states and countries around the world sought to boost economic activity and a return to normalcy as many businesses were permitted to re-open under relaxed social distancing measures. Simultaneously, however, long-simmering racial tensions erupted into worldwide protests and the subject of police brutality took center stage after the death of Minneapolis resident, George Floyd. While the world attempts to look itself in the mirror, the uncertainty of the global health crisis remains.
- In an effort to ensure the smooth functioning of financial markets amid the coronavirus pandemic, the U.S. Federal Reserve (Fed) and central banks around the globe continued to ramp up a historic amount of monetary support. The Fed's balance sheet expanded from \$4 trillion to more than \$7 trillion, and included the first purchases of corporate bond exchange-traded funds. The target federal funds rate remains in the 0%-0.25% range.
- U.S. gross domestic product (GDP) fell 5.0% in the first quarter of 2020. Second-quarter GDP is poised to fall much further even as many states begin to rollback “stay at home” measures. Consumer spending and confidence experienced record drops, but early signs of a bottoming have emerged.
- The May U.S. Bureau of Labor Statistics (BLS) labor market report showed that the economy defied expectations for massive job losses and instead added 2.5 million jobs. The unemployment rate fell to 13.3% from 14.7%, which was a post-WWII high. However, many economists doubt that this is a full measure of the status of the jobs market, and the BLS noted that classification errors understated the true rate by about 3%. The number of Americans that have applied for unemployment benefits during the pandemic now exceeds 40 million, and about six million have left the job market since the downturn began.
- ISM Manufacturing and Services PMI surveys rebounded marginally to 43.1 and 45.4, respectively, but remain in contraction territory. Meanwhile, the housing market has held up reasonably well amid low supply.

Bond Markets

- The U.S. Treasury yield curve steepened in the month as yields on maturities from two to five years fell modestly, while 20- and 30-year bond yields rose about 13 basis points (bps).
- For the month, the 2-year and 5-year Constant Maturity U.S. Treasury Indices returned 0.07% and 0.20%, while the 10-year index returned -0.02%.

- A strong surge in corporate issuance was easily digested by robust demand. Yield spreads on investment-grade (IG) corporate bonds continued to decline. By month-end, spreads had retraced about 80% of their widening spike in March. This tightening led to strong performance for the month, with year-to-date returns nearly closing the huge first-quarter performance gap versus Treasuries.

Municipal Bond Market

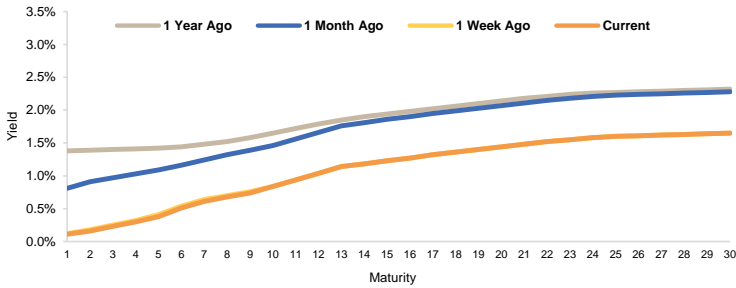
- Municipal new issuance increased in May by 1.5% to \$29.2 billion from \$28.7 billion the same month last year. Year-to-date municipal new issuance is up 11.4% to \$151.7 billion for 2020 from \$136.1 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- May experienced positive bond fund flows throughout the month and ended with net inflows totaling \$5.6 billion, following April's net outflows of \$3.5 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced falling rates across the curve in May. On the short-end, the 1-year rate dropped 70 basis points (bps) to 0.11%, and the 3-year rate fell 74 bps to 0.23%. The 5-year rate fell 71 bps to 0.38%. On the long-end, the 10-year rate decreased 62 bps to 0.84% and the 30-year rate fell by 63 bps to 1.65%, according to Municipal Market Monitor (TM3) data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread increased 5 bps to 41 bps and the Double-A GO Index credit spread remained unchanged at 15 bps, according to TM3 data.
- Municipal-to-Treasury ratios fell in May. The 2-year ratio decreased to 101.3% from 484.0%, and the 5-year ratio dropped to 126.7% from 318.7%. The intermediate-term ratio fell to 124.5% from 243.6%, and the 10-year ratio decreased to 130.0% from 235.5% in April. The 30-year ratio decreased to 116.2% from 179.5%, according to TM3 data.
- The Municipal curve steepened in May with the AAA MMD 2- through 10-year slope rising to 68 bps, and the slope between the AAA MMD 2- through 30-year increasing to 149 bps from April's 137 bps.

Spot Rates				
Term	Current 5/29/2020	1 Week Ago 5/22/2020	1 Month Ago 4/30/2020	1 Year Ago 5/31/2020
2-Year	0.16	0.18	0.91	1.39
3-Year	0.23	0.25	0.97	1.40
5-Year	0.38	0.41	1.09	1.42
7-Year	0.61	0.64	1.24	1.48
10-Year	0.84	0.84	1.46	1.65
30-Year	1.65	1.65	2.28	2.32

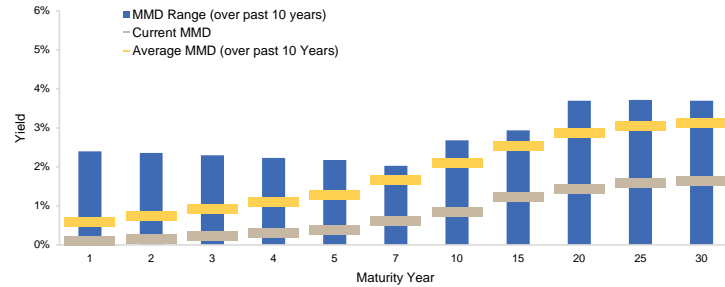
Change in Spot Rate (basis points)			
	1 Week Ago 5/22/2020	1 Month Ago 4/30/2020	1 Year Ago 5/31/2020
2-Year	-2	-75	-123
3-Year	-2	-74	-117
5-Year	-3	-71	-104
7-Year	-3	-63	-87
10-Year	0	-62	-81
30-Year	0	-63	-67

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.16%	0.16%	0.22
3-Year	0.23%	0.20%	0.25
5-Year	0.38%	0.30%	0.35
7-Year	0.61%	0.50%	0.48
10-Year	0.84%	0.65%	0.64
30-Year	1.65%	1.41%	0.96

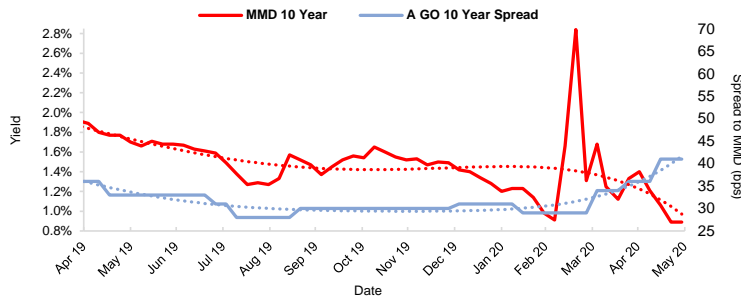
MMD AAA GO Curve



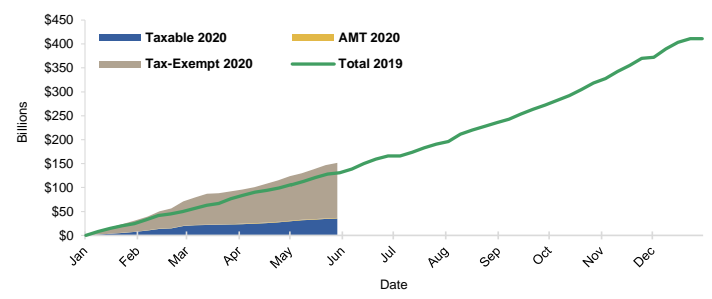
MMD Rates Over Time



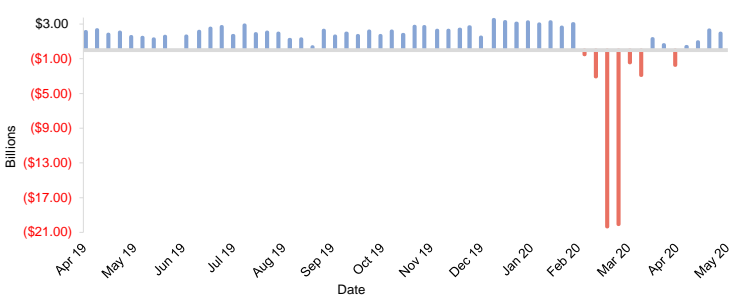
Rate and Spread Movement



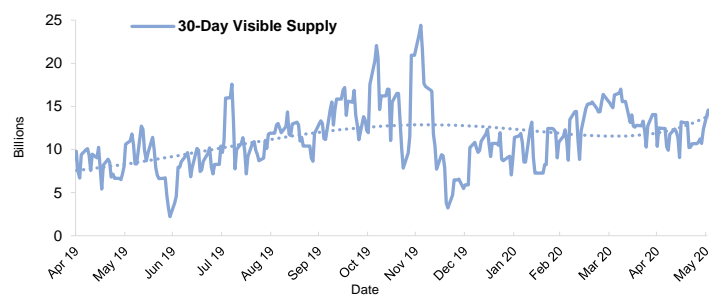
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
06/11/2020	09:45 AM	Bloomberg Consumer Comfort	06/18/2020	08:30 AM	Philadelphia Fed Business Outlook	06/25/2020	08:30 AM	Core PCE QoQ
06/12/2020	08:30 AM	Import Price Index MoM	06/18/2020	08:30 AM	Initial Jobless Claims	06/25/2020	08:30 AM	Initial Jobless Claims
06/12/2020	08:30 AM	Import Price Index ex Petroleum MoM	06/18/2020	08:30 AM	Continuing Claims	06/25/2020	08:30 AM	Continuing Claims
06/12/2020	08:30 AM	Import Price Index YoY	06/18/2020	09:45 AM	Bloomberg Economic Expectations	06/26/2020	08:30 AM	Personal Income
06/12/2020	08:30 AM	Export Price Index MoM	06/19/2020	08:30 AM	Current Account Balance	06/26/2020	08:30 AM	Personal Spending
06/15/2020	08:30 AM	Empire Manufacturing	06/22/2020	08:30 AM	Chicago Fed Nat Activity Index	06/26/2020	08:30 AM	PCE Core Deflator MoM
06/15/2020	04:00 PM	Net Long-term TIC Flows	06/22/2020	10:00 AM	Existing Home Sales	06/26/2020	08:30 AM	PCE Core Deflator YoY
06/15/2020	04:00 PM	Total Net TIC Flows	06/22/2020	10:00 AM	Existing Home Sales MoM	06/29/2020	10:00 AM	Pending Home Sales MoM
06/16/2020	08:30 AM	Retail Sales Advance MoM	06/23/2020	09:45 AM	Markit US Manufacturing PMI	06/29/2020	10:00 AM	Pending Home Sales NSA YoY
06/16/2020	09:15 AM	Industrial Production MoM	06/23/2020	10:00 AM	New Home Sales MoM	06/29/2020	10:30 AM	Dallas Fed Manf. Activity
06/16/2020	09:15 AM	Capacity Utilization	06/23/2020	10:00 AM	Richmond Fed Manufact. Index	06/30/2020	09:00 AM	S&P CoreLogic CS 20-City MoM SA
06/16/2020	09:15 AM	Manufacturing (SIC) Production	06/24/2020	07:00 AM	MBA Mortgage Applications	06/30/2020	09:00 AM	S&P CoreLogic CS 20-City YoY NSA
06/17/2020	08:30 AM	Building Permits	06/24/2020	09:00 AM	FHFA House Price Index MoM	06/30/2020	09:00 AM	S&P CoreLogic CS US HPI NSA Index
06/17/2020	08:30 AM	Building Permits MoM	06/25/2020	08:30 AM	Retail Inventories MoM	06/30/2020	09:45 AM	MNI Chicago PMI
06/17/2020	08:30 AM	Housing Starts	06/25/2020	08:30 AM	Durable Goods Orders	06/30/2020	10:00 AM	Conf. Board Consumer Confidence

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of May 31, 2020.

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