



# Monthly Market Review

"Are we there yet?"

## Economic Highlights

- As summer approaches, pandemic fears seem to be dissipating as a greater percentage of the U.S. population is vaccinated. More than 170 million Americans had received at least one dose by early June, and for the first time in over a year, the U.S. recorded a seven-day average of fewer than 20,000 new coronavirus cases.
- The U.S. economy added 559,000 jobs in May, much better than April's disappointing print of 275,000, but still shy of forecasts. There were notable job gains in leisure and hospitality, public and private education, and healthcare. Although positive, the pace of improvement seems to have slowed from the lofty expectations of a few months ago. The unemployment rate ticked lower to 5.8%, while real average hourly earnings decreased 2.8% over the past year due to rising inflation. The underemployment rate (U-6) also declined to 10.2%.
- Inflation readings continue to run hot, with the consumer price index surging 0.6% in May and 5.0% over the last 12 months, the largest increase since 2008. Compared to a year ago, there were outsized increases in the cost of car rentals (+110%), gasoline (+56.2%), used cars (+29.7%), airline tickets (+24.1%) and hotels (+10%) – goods and services that were depressed in the early days of the pandemic. On the other hand, many key commodity prices, like lumber, copper, aluminum and corn, fell from their recent highs.
- Retail sales stalled in April following a sharp climb in the prior month when spending was supported by pandemic-relief checks. Elevated savings should nevertheless support demand even as consumers shift spending to services amid easing lockdown restrictions.
- Minutes from the April Federal Open Market Committee meeting, released in mid-May, revealed some Federal Reserve (Fed) officials at least contemplating future tapering of bond purchases. The minutes noted that the Committee remains "attuned and attentive" to the inflation outlook amid supply shortages and other risk factors.

## Bond Markets

- U.S. Treasury yields were largely unchanged over the month. At the short end of the yield curve, yields on 3- and 6-month Treasury bills remained in a very low and tight range. For intermediate and longer-term tenors, yields on benchmark Treasuries fell two to five basis points (bps).
- Quarter-to-date yields on 2-year and 10-year Treasuries have moved in tight ranges as bond market volatility subsided, awaiting direction from the economy and the Fed.
- The U.S. Treasury is expected to reduce its issuance of short-term Treasury bills, as it reduces its cash balance from \$800 billion to around \$130 billion by July 30 to comply with the coming

expiration of a temporary expansion of the debt limit. The reduction will contribute further to the scarcity of T-Bills that is putting downward pressure on short-term rates. The late summer will likely see the Treasury invoking extraordinary measures to keep the government operating and triggering typical political battles around the debt ceiling.

- Government bond benchmarks had positive performance in May across all tenors. The 3-month Treasury index performance was flat, while the 5- and 10-year indices advanced 0.43% and 0.51%, respectively.
- Investment-grade (IG) corporate bond benchmarks also had positive returns. Corporate issuance was robust in May with gross issuance at \$137.6 billion, which is higher than comparable levels in 2018 and 2019. Year-to-date, gross issuance totaled \$718 billion.

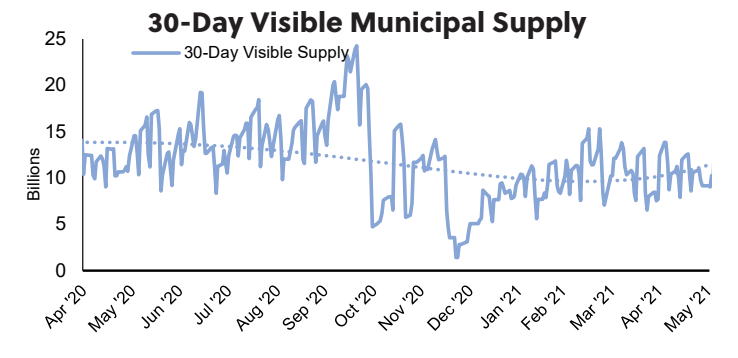
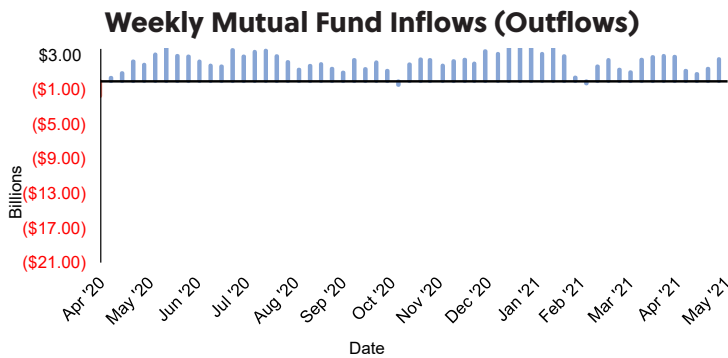
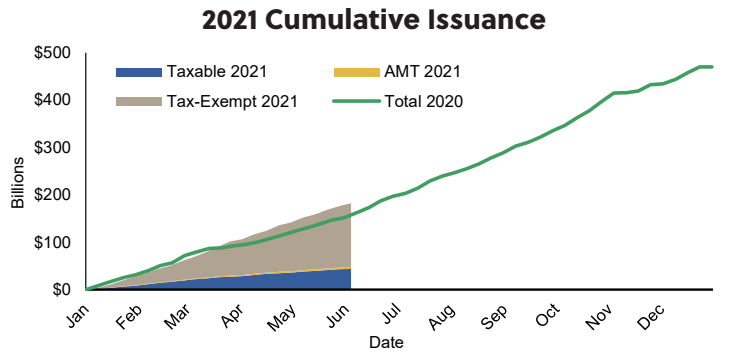
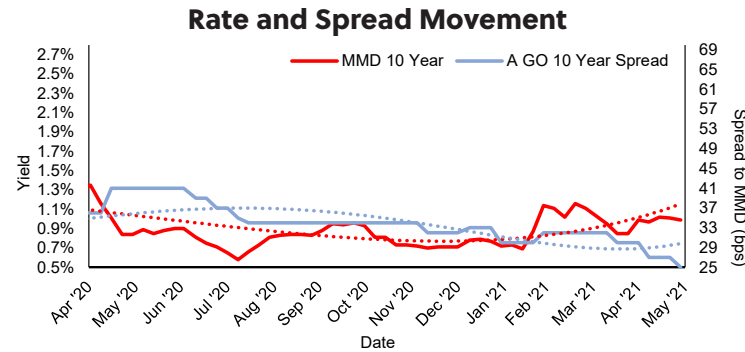
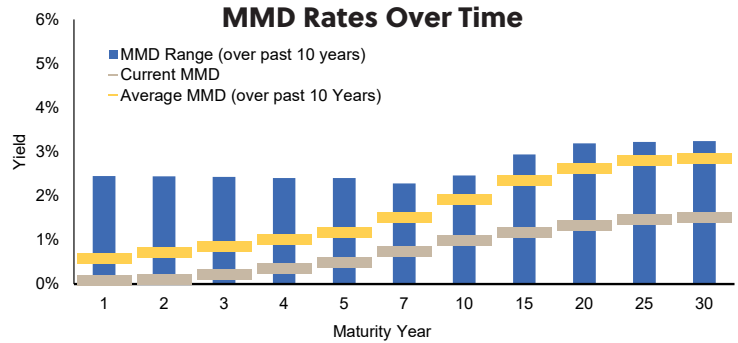
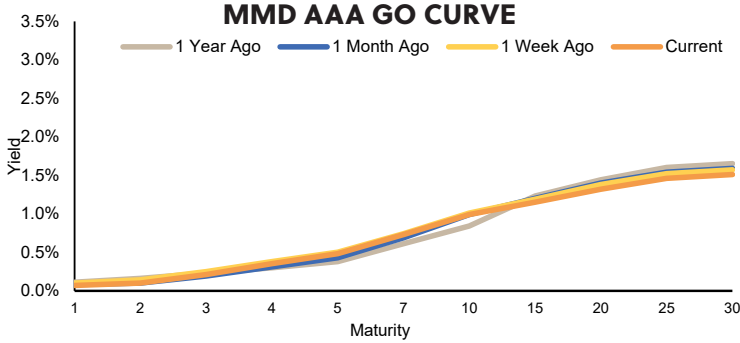
## Municipal Bond Market

- Municipal new issuance rose in May by 2.4% to \$31.7 billion from \$30.9 billion the same month last year. Total municipal new issuance for 2021 was up 12.3% to \$177.4 billion for the year compared to the \$157.9 billion recorded for the same time period in 2020, according to the Municipal Market Monitor (TM3) data.
- May experienced positive bond flows throughout the month and ended with net inflows totaling \$6.1 billion, following April's net inflows of \$11.1 billion, according to Investment Company Institute (ICI) data.
- In May, the Municipal Market Data (MMD) Index experienced mixed changes in rates across the curve. The 1-year rate fell 1 bp to 0.07%, while the 3-year increased 2 bps to 0.21%. The 5-year rate increased 5 bps to 0.48% from 0.43%, and the 10-year rate remained unchanged at 0.99%. On the long end, the 30-year rate declined to 1.51% from 1.59%, in May, according to TM3 data.
- During May, the 10-year MMD Single-A General Obligation (GO) Index credit spread dropped to 25 bps, and the Double-A GO Index credit remained constant at 13 bps.
- The Municipal-to-Treasury ratios increased throughout the curve in May, with one exception on the long-end. The 2-year ratio increased to 69.0% from 61.7%, and the 5-year ratio increased to 59.9% from 50.2% last month. The intermediate-term ratio increased to 57.8% from 52.4%, and the 10-year ratio increased to 62.1% from 60.4% in April. The 30-year ratio decreased in May to 66.4% from 68.8% last month, according to TM3 data.
- The Municipal curve remained rangebound in May, with the AAA MMD 2- through 10-year slope staying constant at 89 bps. The slope between the AAA MMD 2- through 30-year decreased to 141 bps from 149 bps in April.

Spot Rates				
Term	Current 5/28/2021	1 Week Ago 5/21/2021	1 Month Ago 4/30/2021	1 Year Ago 5/31/2020
2-Year	0.10	0.14	0.10	0.16
3-Year	0.21	0.25	0.19	0.23
5-Year	0.48	0.50	0.43	0.38
7-Year	0.73	0.74	0.69	0.61
10-Year	0.99	1.01	0.99	0.84
30-Year	1.51	1.57	1.59	1.65

Change in Spot Rate (basis points)			
Term	1 Week Ago 5/21/2021	1 Month Ago 4/30/2021	1 Year Ago 5/31/2020
2-Year	-4	0	-6
3-Year	-4	2	-2
5-Year	-2	5	10
7-Year	-1	4	12
10-Year	-2	0	15
30-Year	-6	-8	-14

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.10%	0.15%	0.13%
3-Year	0.21%	0.29%	0.26%
5-Year	0.48%	0.77%	0.58%
7-Year	0.73%	1.24%	0.86%
10-Year	0.99%	1.58%	1.12%
30-Year	1.51%	2.28%	1.62%



Economic Calendar								
Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
06/15/2021	12:00 AM	Retail Sales Advance MoM	06/15/2021	10:00 AM	NAHB Housing Market Index	06/16/2021	14:00 AM	Interest Rate on Excess Reserves
06/15/2021	08:30 AM	PPI Final Demand MoM	06/15/2021	16:00 AM	Total Net TIC Flows	06/17/2021	08:30 AM	Initial Jobless Claims
06/15/2021	08:30 AM	Empire Manufacturing	06/15/2021	16:00 AM	Net Long-term TIC Flows	06/17/2021	08:30 AM	Continuing Claims
06/15/2021	08:30 AM	Retail Sales Ex Auto MoM	06/16/2021	07:00 AM	MBA Mortgage Applications	06/17/2021	08:30 AM	Philadelphia Fed Business Outlook
06/15/2021	08:30 AM	PPI Ex Food and Energy MoM	06/16/2021	08:30 AM	Building Permits MoM	06/17/2021	09:45 AM	Langer Consumer Comfort
06/15/2021	08:30 AM	Retail Sales Ex Auto and Gas	06/16/2021	08:30 AM	Building Permits	06/17/2021	10:00 AM	Leading Index
06/15/2021	08:30 AM	PPI Ex Food, Energy, Trade MoM	06/16/2021	08:30 AM	Housing Starts	06/21/2021	08:30 AM	Chicago Fed Nat Activity Index
06/15/2021	08:30 AM	Retail Sales Control Group	06/16/2021	08:30 AM	Housing Starts MoM	06/22/2021	10:00 AM	Existing Home Sales
06/15/2021	08:30 AM	PPI Final Demand YoY	06/16/2021	08:30 AM	Import Price Index MoM	06/22/2021	10:00 AM	Richmond Fed Manufact. Index
06/15/2021	08:30 AM	PPI Ex Food and Energy YoY	06/16/2021	08:30 AM	Import Price Index ex Petroleum MoM	06/22/2021	10:00 AM	Existing Home Sales MoM
06/15/2021	08:30 AM	PPI Ex Food, Energy, Trade YoY	06/16/2021	08:30 AM	Import Price Index YoY	06/23/2021	07:00 AM	MBA Mortgage Applications
06/15/2021	09:15 AM	Capacity Utilization	06/16/2021	08:30 AM	Export Price Index MoM	06/23/2021	08:30 AM	Current Account Balance
06/15/2021	09:15 AM	Industrial Production MoM	06/16/2021	08:30 AM	Export Price Index YoY	06/23/2021	09:45 AM	Markit US Manufacturing PMI
06/15/2021	09:15 AM	Manufacturing (SIC) Production	06/16/2021	14:00 AM	FOMC Rate Decision (Lower Bound)	06/23/2021	09:45 AM	Markit US Services PMI
06/15/2021	10:00 AM	Business Inventories	06/16/2021	14:00 AM	FOMC Rate Decision (Upper Bound)	06/23/2021	09:45 AM	Markit US Composite PMI

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of May 31, 2021.

The views expressed constitute the perspective of PFM's financial advisory business 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. Financial advisory services are provided by PFM Financial Advisors LLC and Public Financial Management, Inc. Both are registered municipal advisors with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) under the Dodd-Frank Act of 2010. For more information regarding PFM's services or entities, please visit [www.pfm.com](http://www.pfm.com).

