



Monthly Market Review

Economy remains under pressure, while markets rally.

Economic Highlights

- The COVID-19 pandemic has upended the U.S. economy. In three months, it has gone from stable growth to a historic plunge with the depth unknown. Even as plans evolve to ease lockdown restrictions, the pandemic is exacting an unprecedented toll on business activity, employment and consumer spending.
- U.S. gross domestic product fell at an annualized rate of 4.8% in the first quarter of 2020, the worst level since the Great Recession, even though the economic impact of the pandemic-induced shutdown was concentrated late in the quarter. The current quarter will be much weaker.
- The U.S. economy lost 20.5 million jobs in April, erasing nearly all the jobs created since the 2008-2009 recession. Unemployment spiked to 14.7%, the highest level since the Great Depression, and is likely still under-reported. Some 6.4 million people left the workforce, pushing the labor force participation rate down to 60.2%, the lowest since 1973. The number of Americans applying for unemployment benefits topped 30 million.
- According to IHS Markit, private sector firms in the U.S. signaled an unprecedented decline in business activity in April. The manufacturing PMI fell to 36.1, while the services PMI sank to 26.7 (a record low), both well below the level of 50 which marks the boundary between expansion and contraction.
- The Federal Reserve (Fed) — after having reduced rates essentially to zero in March — focused on mobilizing its arsenal of emergency lending programs to shore up corporations and stabilize still-fragile markets. At its April meeting, the Federal Open Market Committee acknowledged the hardships the pandemic has caused, noted considerable risks for the U.S. economy over the medium term, and signaled it will maintain current policy until “the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.” Fed Chair Jerome Powell commented that the Fed would use all of its tools to support the economy “forcefully, proactively, and aggressively.”
- The Paycheck Protection Program and Health Care Enhancement Act, authorized by the fiscal stimulus bill passed by Congress in April, provides \$484 billion in additional funding to replenish key programs under the CARES Act, including the small business loan program which was quickly depleted.

Bond Markets

- After extreme market volatility in March, the fixed income markets gradually moved back toward more normal conditions. Movements in U.S. Treasury yields were relatively tame. Short-term yields inched higher off briefly negative yields, fueled in part by the massive increase in short-term Treasury borrowings to fund the CARES Act, while long-term yields moved lower by three to five basis points. The federal deficit — expected to total \$3.7 trillion this fiscal year — barely made headlines.

- Treasury benchmark returns for April were generally muted. The 3-month and 2-year U.S. Treasury indices returned just 0.01% and 0.03%, respectively. The 5-year and 10-year indices returned 0.18% and 0.70%, respectively.
- Corporate bond and other non-government sectors produced strong returns, as the Fed’s lending and liquidity support programs helped push yield spreads sharply lower. For example, the 1-5 year index of investment-grade corporate bonds had excess returns over Treasuries of 2.97% in April. Compared to March, where the return on this index lagged the Treasury benchmark by 5.83%, this was strong evidence of the effectiveness of the central bank’s actions.

Municipal Bond Market

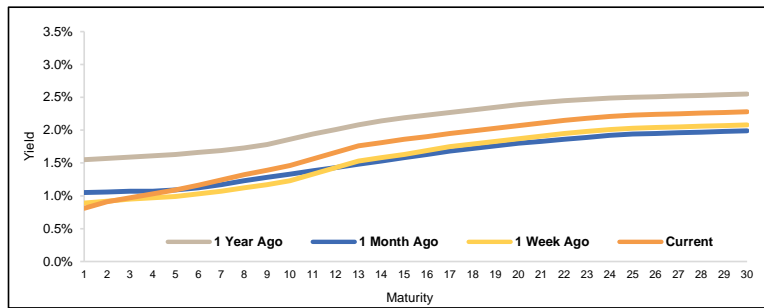
- Municipal new issuance decreased in April by 6.6% to \$26.1 billion from \$28.0 billion the same month last year. Year-to-date municipal new issuance is up 10.8% to \$119.0 billion for 2020 from \$107.3 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- April experienced negative bond fund flows throughout the month and ended with net outflows totaling \$4.16 billion, following March’s net outflows of \$44.5 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced falling rates on the short-end, with the 1-year rate dropping 24 basis points (bps) to 0.81% and 3-year rate falling 10 bps to 0.97%. Meanwhile, the 5-year rate remained unchanged at 1.09%. Rates increased on the long-end, with the 10-year rate rising 13 bps to 1.37% and the 30-year rate jumping by 29 bps to 2.28%, according to Municipal Market Monitor (TM3) data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread increased 7 bps to 36 bps and the Double-A GO Index credit spread rose by 2 bps to 15 bps, according to TM3 data.
- Municipal-to-Treasury ratios increased in April. The 2-year ratio increased to 484.0% from 481.8% in March, and the 5-year ratio rose to 318.7% from 297.0%. The intermediate-term ratio grew to 243.6% from 213.5%, while the 10-year ratio rose to 235.5% from 196.5% in March. The 30-year ratio increased to 179.5% from 150.2%, according to TM3 data.
- The Municipal curve steepened in April with the AAA MMD 2- through 10-year slope rising to 55 bps, and the slope between the AAA MMD 2- through 30-year increasing to 137 bps from March’s 93 bps.

Spot Rates				
Term	Current 4/30/2020	1 Week Ago 4/23/2020	1 Month Ago 3/31/2020	1 Year Ago 4/30/2019
2-Year	0.91	0.92	1.06	1.57
3-Year	0.97	0.95	1.07	1.59
5-Year	1.09	0.99	1.09	1.63
7-Year	1.24	1.07	1.17	1.69
10-Year	1.46	1.23	1.33	1.86
30-Year	2.28	2.08	1.99	2.55

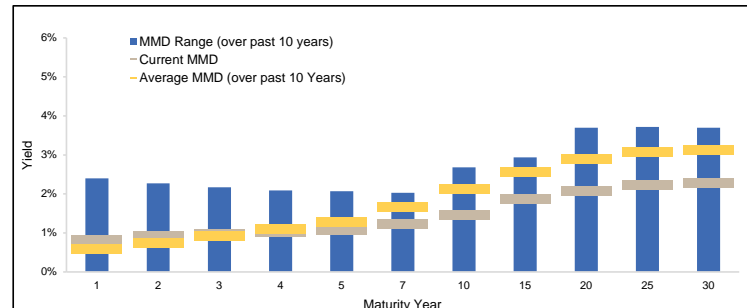
Change in Spot Rate (basis points)			
	1 Week Ago 4/23/2020	1 Month Ago 3/31/2020	1 Year Ago 4/30/2019
2-Year	-1	-15	-66
3-Year	2	-10	-62
5-Year	10	0	-54
7-Year	17	7	-45
10-Year	23	13	-40
30-Year	20	29	-27

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.91%	0.20%	0.22
3-Year	0.97%	0.25%	0.25
5-Year	1.09%	0.36%	0.35
7-Year	1.24%	0.54%	0.48
10-Year	1.46%	0.64%	0.64
30-Year	2.28%	1.29%	0.96

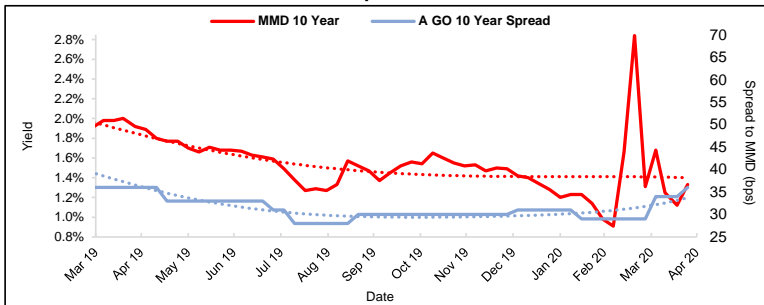
MMD AAA GO Curve



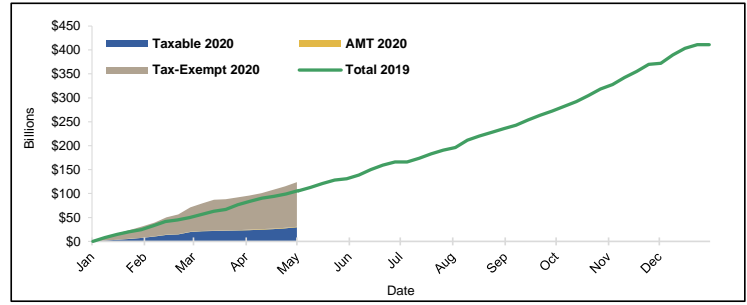
MMD Rates Over Time



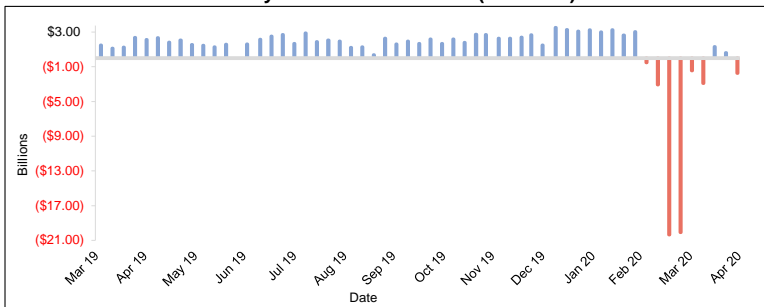
Rate and Spread Movement



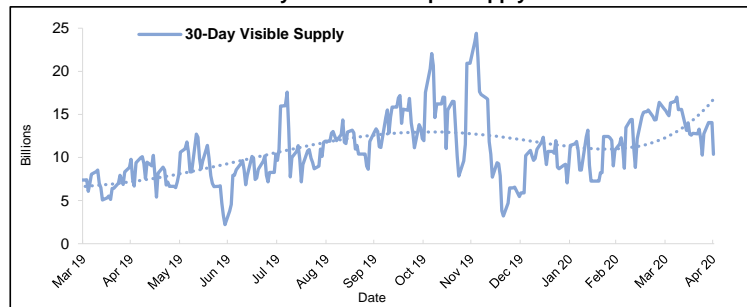
2020 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
05/08/2020	08:30 AM	Underemployment Rate	05/15/2020	08:30 AM	Retail Sales Ex Auto and Gas	05/26/2020	08:30 AM	Chicago Fed Nat Activity Index
05/08/2020	10:00 AM	Wholesale Inventories MoM	05/15/2020	08:30 AM	Retail Sales Control Group	05/26/2020	09:00 AM	House Price Purchase Index QoQ
05/08/2020	10:00 AM	Wholesale Trade Sales MoM	05/15/2020	10:00 AM	U. of Mich. 1 Yr Inflation	05/26/2020	09:00 AM	FHFA House Price Index MoM
05/12/2020	06:00 AM	NFIB Small Business Optimism	05/15/2020	10:00 AM	U. of Mich. 5-10 Yr Inflation	05/26/2020	10:30 AM	Dallas Fed Manf. Activity
05/12/2020	08:30 AM	CPI MoM	05/18/2020	10:00 AM	NAHB Housing Market Index	05/27/2020	07:00 AM	MBA Mortgage Applications
05/12/2020	08:30 AM	CPI Ex Food and Energy MoM	05/19/2020	08:30 AM	Building Permits	05/27/2020	10:00 AM	Richmond Fed Manufact. Index
05/12/2020	08:30 AM	CPI YoY	05/19/2020	08:30 AM	Building Permits MoM	05/27/2020	02:00 PM	U.S. Federal Reserve Releases Beige Book
05/12/2020	08:30 AM	CPI Ex Food and Energy YoY	05/20/2020	07:00 AM	MBA Mortgage Applications	05/28/2020	08:30 AM	Core PCE QoQ
05/12/2020	08:30 AM	CPI Index NSA	05/20/2020	02:00 PM	FOMC Meeting Minutes	05/28/2020	08:30 AM	Durable Goods Orders
05/13/2020	08:30 AM	PPI Final Demand MoM	05/21/2020	08:30 AM	Philadelphia Fed Business Outlook	05/28/2020	10:00 AM	Pending Home Sales MoM
05/13/2020	08:30 AM	PPI Ex Food and Energy MoM	05/21/2020	08:30 AM	Initial Jobless Claims	05/29/2020	08:30 AM	Wholesale Inventories MoM
05/13/2020	08:30 AM	PPI Ex Food, Energy, Trade MoM	05/21/2020	08:30 AM	Continuing Claims	05/29/2020	08:30 AM	Retail Inventories MoM
05/14/2020	08:30 AM	Import Price Index YoY	05/21/2020	09:45 AM	Markit US Manufacturing PMI	05/29/2020	08:30 AM	PCE Core Deflator MoM
05/14/2020	08:30 AM	Export Price Index MoM	05/21/2020	09:45 AM	Markit US Services PMI	05/29/2020	08:30 AM	PCE Core Deflator YoY
05/14/2020	08:30 AM	Export Price Index YoY	05/21/2020	09:45 AM	Markit US Composite PMI	05/29/2020	10:00 AM	U. of Mich. 5-10 Yr Inflation

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of April 30, 2020.

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