



# Monthly Market Review

Turning a corner?

## Economic Highlights

- As quickly as the leaves blew off the trees, the markets took on a decidedly better tone in October. The Federal Reserve (Fed) provided another round of monetary stimulus, gross domestic product (GDP) and employment – the most important economic indicators in the U.S. – surprised to the upside, the trade outlook improved as talks between the U.S. and China appeared more productive, and the Brexit deadline was extended. The global economy continues to roll forward at a slow pace.
- The Fed made a third 0.25% cut in the fed funds rate at its October 30 Federal Open Market Committee meeting. Although the Fed continued to acknowledge solid job gains and strong household spending, it also noted that business investment and exports remained weak. It characterized the latest move as “insurance against ongoing risks” and now views policy as “in a good place.” The new target range is set at 1.50% to 1.75% and likely to remain there for the foreseeable future.
- The U.S. economy grew an annualized rate of 1.9% in the third quarter of 2019, which was stronger than expected and virtually unchanged from the 2% growth rate of the second quarter. Growth reflected positive contributions from consumer spending, government spending and residential housing that were partly offset by a continuing decline in business investment.
- The pace of U.S. job growth eased to a gain of 128,000 in October, but that was much stronger than forecast, despite the six week strike at General Motors. Equally important, revisions added 95,000 jobs to the prior two months. The report reaffirmed labor market resiliency. The unemployment rate ticked higher to 3.6%, primarily because of new entrants into the labor force. Wage growth was positive, but modest, reinforcing the narrative of muted underlying inflation pressures.
- In manufacturing, both the ISM and Markit PMI surveys showed slight improvements in October. The trade war has caused business to pull back plans for expansion. If a trade deal emerges, it could set the stage for a recovery in the sector. While manufacturing represents a relatively small share of the U.S. economy and labor force, it has a more significant impact on the global economy.
- The U.S. housing market remained firm, supported by low mortgage rates. Although home sales fell, they remain near cycle highs while a surge in construction spending bodes well for the future.

## Bond Markets

- The U.S. Treasury yield curve un-inverted over the month as short rates fell and longer rates rose. At the end of October, the curve was essentially flat from one month (1.54%) to five years (1.52%). The combination of an additional rate cut in October and Fed purchases of Treasury bills to stabilize money markets

helped push short-term yields lower over the month. Changes in intermediate-term maturities (between one and seven years) were muted, while longer Treasury yields (10 and 30 years) moved higher.

- In the U.S. Treasury market, the six-month and two-year Constant Maturity U.S. Treasury Index returned 0.25% and 0.28%, respectively. Meanwhile, the return on the 10-year was zero and the 30-year index returned -1.04%, for the month, partially reversing the strong year-to-date (YTD) gains.
- While shorter-term Treasuries outperformed their longer duration counterparts for the month, YTD 2019 performance has overwhelmingly favored longer duration strategies.

## Municipal Bond Market

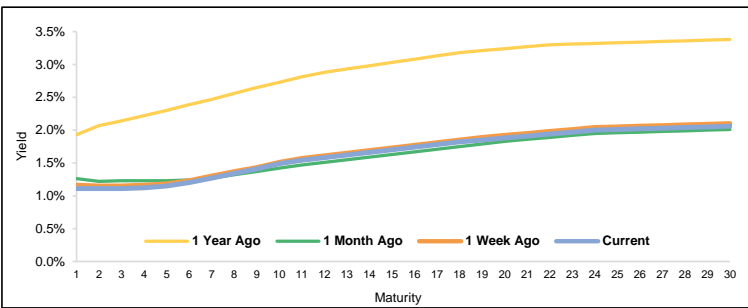
- Municipal new issuance increased in October by 41.6% to \$53.5 billion from \$37.8 billion the same month last year. YTD municipal new issuance is up 14.0% to \$331.6 billion for 2019 from \$291.0 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- October experienced positive bond flows throughout the month and ended with net inflows totaling \$7.45 billion, following September's net inflows of \$5.17 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index saw falling rates on the front-end of the yield curve in October. The one-year rate fell 15 basis points (bps) to 1.11% and the three-year rate dropped 12 bps to also reach 1.11%. The five-year rate fell by 8 bps to 1.15%. The long-end saw the opposite of the front-end movement, with the 10-year rate increasing by 7 bps to 1.49% and the 30-year rate rising 5 bps to 2.06%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread and the Double-A GO Index credit spread both remained unchanged at 30 bps and 14 bps, respectively, according to TM3 data.
- In October, Municipal-to-Treasury ratios experienced mixed rates across the yield curve. The two-year ratio decreased to 73.0% from 74.9% in September, and the five-year ratio fell to 75.7% from 79.0%. The intermediate-term ratio rose to 79.4% from 78.4% and the 10-year ratio rose to 88.2% from 85.0%. The 30-year ratio increased slightly to 94.9% from 94.8%, according to TM3 data.
- The Municipal curve steepened in October with the AAA MMD 2-year/10-year slope rising to 38 bps from 20 bps in September, and the AAA MMD 2-year/30-year slope increasing to 95 bps from September's 79 bps.

Spot Rates				
Term	Current 10/31/2019	1 Week Ago 10/24/2019	1 Month Ago 9/30/2019	1 Year Ago 10/31/2018
2-Year	1.11	1.15	1.22	2.07
3-Year	1.11	1.15	1.23	2.14
5-Year	1.15	1.18	1.23	2.30
7-Year	1.27	1.30	1.27	2.47
10-Year	1.49	1.51	1.42	2.73
30-Year	2.06	2.10	2.01	3.38

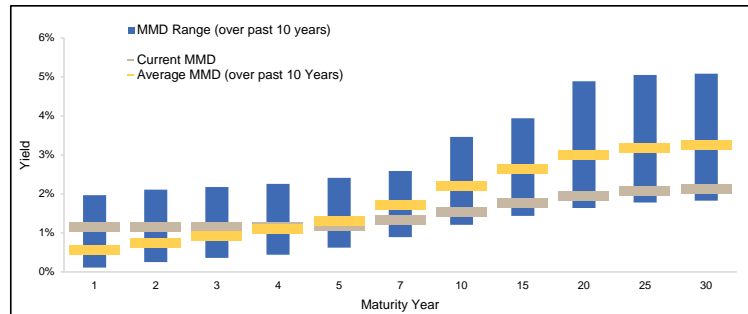
Change in Spot Rate (basis points)			
	1 Week Ago 10/24/2019	1 Month Ago 9/30/2019	1 Year Ago 10/31/2018
2-Year	-4	-11	-96
3-Year	-4	-12	-103
5-Year	-3	-8	-115
7-Year	-3	0	-120
10-Year	-2	7	-124
30-Year	-4	5	-132

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.11%	1.53%	1.12
3-Year	1.11%	1.52%	1.11
5-Year	1.15%	1.52%	1.14
7-Year	1.27%	1.61%	1.22
10-Year	1.49%	1.69%	1.34
30-Year	2.06%	2.18%	1.67

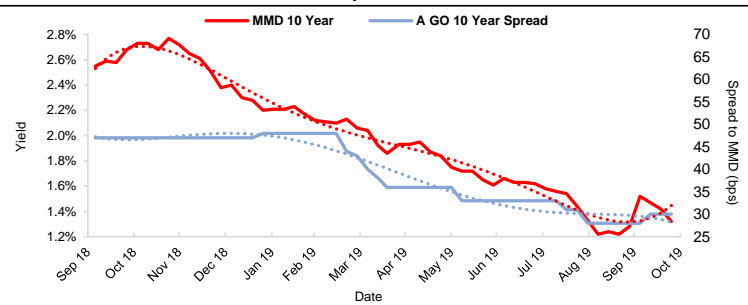
MMD AAA GO Curve



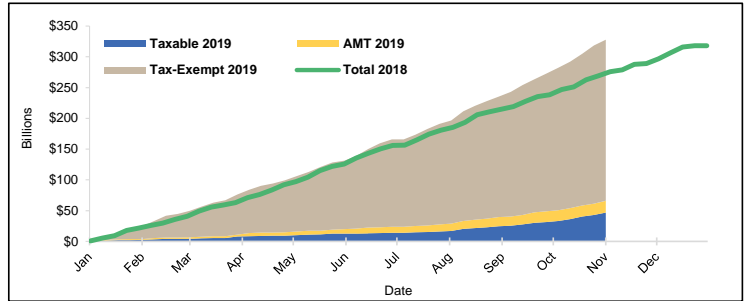
MMD Rates Over Time



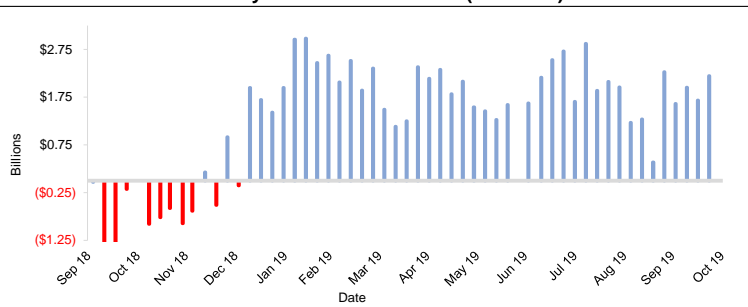
Rate and Spread Movement



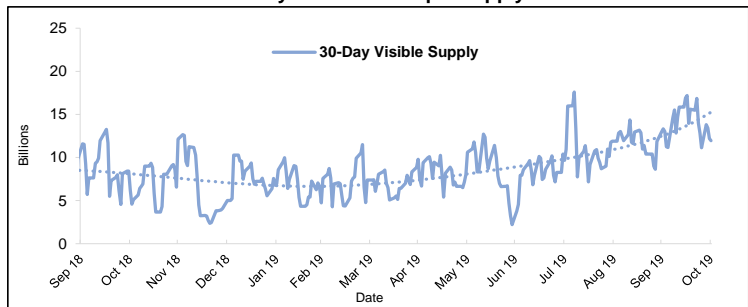
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
11/08/2019	10:00 AM	Wholesale Inventories MoM	11/14/2019	08:30 AM	Continuing Claims	11/22/2019	10:00 AM	U. of Mich. 1 Yr Inflation
11/08/2019	10:00 AM	Wholesale Trade Sales MoM	11/14/2019	09:45 AM	Blooming Consumer Comfort	11/22/2019	10:00 AM	U. of Mich. 5-10 Yr Inflation
11/08/2019	10:00 AM	U. of Mich. Sentiment	11/15/2019	08:30 AM	Empire Manufacturing	11/22/2019	11:00 AM	Kansas City Fed Manf. Activity
11/08/2019	10:00 AM	U. of Mich. Current Conditions	11/15/2019	08:30 AM	Import Price Index MoM	11/25/2019	08:30 AM	Chicago Fed Nat Activity Index
11/08/2019	10:00 AM	U. of Mich. Expectations	11/15/2019	09:15 AM	Industrial Production MoM	11/25/2019	10:30 AM	Dallas Fed Manf. Activity
11/08/2019	10:00 AM	U. of Mich. 1 Yr Inflation	11/15/2019	09:15 AM	Manufacturing (SIC) Production	11/26/2019	08:30 AM	Retail Inventories MoM
11/13/2019	07:00 AM	MBA Mortgage Applications	11/15/2019	09:15 AM	Capacity Utilization	11/26/2019	08:30 AM	Advance Goods Trade Balance
11/13/2019	08:30 AM	Real Avg Weekly Earnings YoY	11/15/2019	10:00 AM	Business Inventories	11/26/2019	10:00 AM	Conf. Board Expectations
11/13/2019	08:30 AM	Real Avg Hourly Earning YoY	11/18/2019	10:00 AM	NAHB Housing Market Index	11/27/2019	07:00 AM	MBA Mortgage Applications
11/13/2019	08:30 AM	CPI MoM	11/18/2019	04:00 PM	Net Long-term TIC Flows	11/27/2019	08:30 AM	GDP Annualized QoQ
11/13/2019	08:30 AM	CPI Ex Food and Energy MoM	11/19/2019	08:30 AM	Housing Starts MoM	11/27/2019	08:30 AM	Personal Consumption
11/13/2019	11:15 AM	Mortgage Delinquencies	11/20/2019	07:00 AM	MBA Mortgage Applications	11/27/2019	08:30 AM	Durable Goods Orders
11/13/2019	11:15 AM	MBA Mortgage Foreclosures	11/20/2019	02:00 PM	FOMC Meeting Minutes	11/27/2019	10:00 AM	Pending Home Sales NSA YoY
11/14/2019	08:30 AM	PPI Final Demand MoM	11/21/2019	08:30 AM	Philadelphia Fed Business Outlook	11/27/2019	10:00 AM	PCE Deflator YoY
11/14/2019	08:30 AM	PPI Ex Food and Energy MoM	11/21/2019	08:30 AM	Initial Jobless Claims	11/27/2019	10:00 AM	PCE Core Deflator MoM

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of October 31, 2019.

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