



# Monthly Market Review

Slow isn't easy!

## Economic Highlights

- The global economy has continued to cool, following the change of seasons in the U.S and Europe. With mounting manufacturing woes, a looming Brexit deadline and the threat of escalating trade wars, the economic outlook has weakened. Recent geopolitical events around the globe (e.g., Iran/Saudi Arabia, Syria/Turkey/U.S. and Ukraine/Russia/U.S.) add yet another layer of uncertainty and the specter of a presidential impeachment in the U.S. doesn't help.
- The Federal Reserve (Fed) cut the overnight interbank rate by 0.25% in September to a new target range of 1.75% to 2.00%. Fed Chair Jerome Powell explained that the move was made "to help keep the U.S. economy strong in the face of some notable developments and to provide insurance against ongoing risks." The Chair noted that "since the middle of last year, the global growth outlook has weakened, notably in Europe and China. Additionally, a number of geopolitical risks, including Brexit, remain unresolved. Trade policy tensions have waxed and waned, and elevated uncertainty is weighing on U.S. investments and exports." The move was not unanimously supported by Federal Open Market Committee members who are openly divided on the need for future policy adjustments.
- The labor market continued to decelerate through the third quarter. The U.S. economy added only 136,000 jobs in September, much weaker than the average pace of 223,000 jobs per month in 2018. The unemployment rate ticked lower to 3.5% – a 50-year low – but wage growth slipped to 2.9% year-over-year, the slowest pace in more than a year. Weaker wage growth and slower job creation may portend weaker consumer spending in coming months.
- U.S. manufacturing activity also continued to decelerate. The ISM Manufacturing PMI survey came in at 47.8, the lowest level since 2009 and an indication that the manufacturing part of the economy may be slipping into recession. Uncertainty caused by the ongoing trade war with China has led to this slowdown.
- Falling mortgage rates are finally benefiting the U.S. housing market. Existing and new home sales have trended higher and strong readings on housing starts and building permits point to an expected boost in future housing activity.

## Bond Markets

- U.S. Treasury yields reversed their year-long decline in September as rates on Treasuries with maturities greater than one year rose. Longer-term yields rose 10 to 20 basis points (bps) over the month. Meanwhile, shorter-term yields (less than six months) declined by 15 to 25 bps as the curve adjusted to the two recent Fed rate cuts.

- After eight months of strong outperformance, rising rates led longer maturities to underperform their shorter duration counterparts in September. For example, the three-month and one-year constant maturity U.S. Treasuries returned 0.17% and 0.11%, respectively, while two-year, five-year and 10-year Treasuries generated total returns of -0.13%, -0.62% and -1.41%, respectively, for the month.
- Broadly diversified portfolios that included allocations to corporate and mortgage-related securities generally outperformed government-only portfolios as yield spreads narrowed modestly over the month.

## Municipal Bond Market

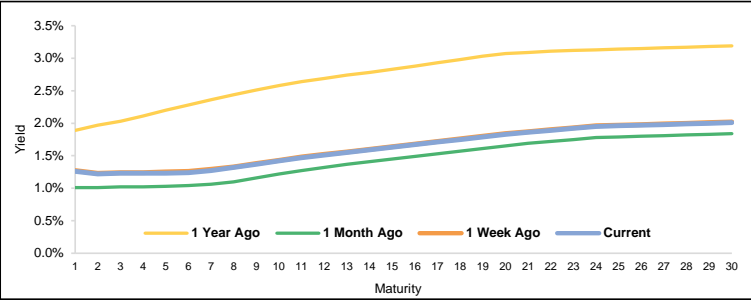
- Municipal new issuance increased in September by 42.1% to \$36.1 billion from \$25.4 billion the same month last year. Year-to-date municipal new issuance is up 9.1% to \$276.3 billion for 2019 from \$253.2 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- September experienced positive bond flows throughout the month and ended with net inflows totaling \$5.17 billion, following August's net inflows of \$9.05 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index saw rising rates across the yield curve in September. The one-year rate rose 25 bps to 1.26%, while the three-year rate increased 21 bps to 1.23%. The five-year and 10-year rates both jumped 20 bps to 1.23% and 1.42%, respectively. On the long end, the 30-year rate rose 17 bps to 2.01%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread increased 2 bps to 30 bps and the Double-A GO Index credit spread rose 2 bps to 14 bps, according to TM3 data.
- In September, Municipal-to-Treasury ratios experienced increasing rates across the yield curve. The two-year ratio rose to 74.9% from 66.7% in August, and the five-year ratio increased to 79.0% from 73.9%. The intermediate-term ratio rose to 78.4% from 72.7% and the 10-year ratio rose to 85.0% from 81.2%. The 30-year ratio grew to 94.8% from 93.7%, according to TM3 data.
- The Municipal curve flattened in September with the AAA MMD 2-year/10-year slope falling to 20 bps from 21 bps in August, and the AAA MMD 2-year/30-year slope decreasing to 79 bps from August's 83 bps.

Spot Rates				
Term	Current 9/30/2019	1 Week Ago 9/23/2019	1 Month Ago 8/30/2019	1 Year Ago 9/28/2018
2-Year	1.22	1.23	1.01	1.97
3-Year	1.23	1.24	1.02	2.03
5-Year	1.23	1.25	1.03	2.20
7-Year	1.27	1.29	1.06	2.36
10-Year	1.42	1.43	1.22	2.58
30-Year	2.01	2.02	1.84	3.19

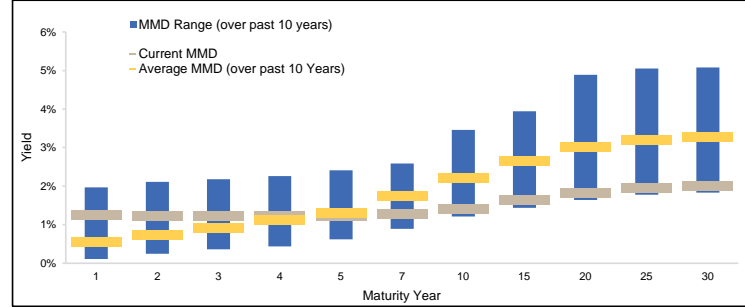
Change in Spot Rate (basis points)			
	1 Week Ago 9/23/2019	1 Month Ago 8/30/2019	1 Year Ago 9/28/2018
2-Year	-1	21	-75
3-Year	-1	21	-80
5-Year	-2	20	-97
7-Year	-2	21	-109
10-Year	-1	20	-116
30-Year	-1	17	-118

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.22%	1.62%	0.96
3-Year	1.23%	1.56%	0.92
5-Year	1.23%	1.55%	0.92
7-Year	1.27%	1.61%	0.98
10-Year	1.42%	1.67%	1.09
30-Year	2.01%	2.11%	1.37

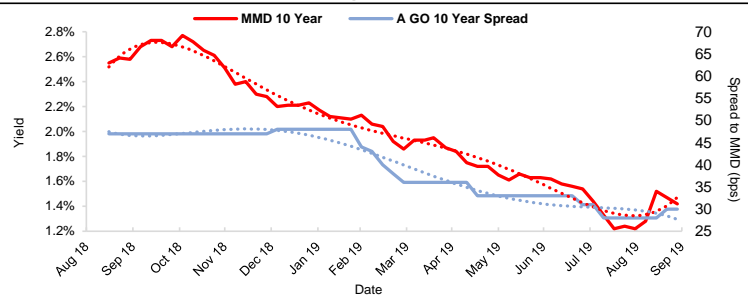
MMD AAA GO Curve



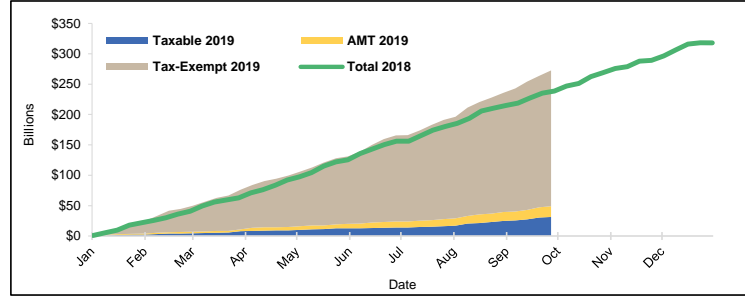
MMD Rates Over Time



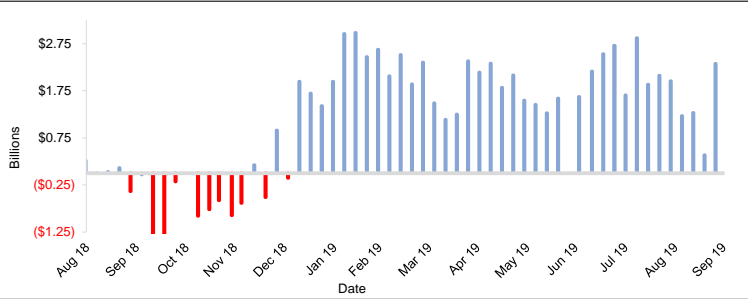
Rate and Spread Movement



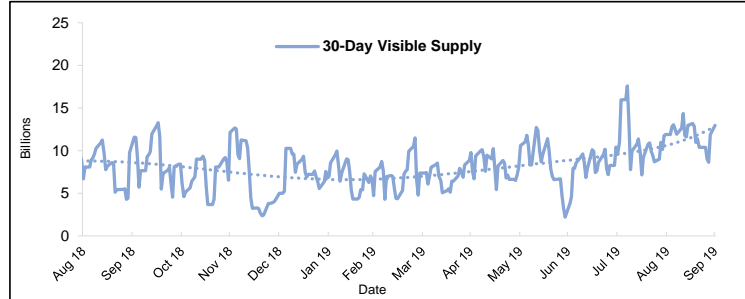
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
10/09/2019	10:00 AM	Wholesale Trade Sales MoM	10/17/2019	08:30 AM	Building Permits MoM	10/28/2019	08:30 AM	Retail Inventories MoM
10/09/2019	10:00 AM	Wholesale Inventories MoM	10/17/2019	08:30 AM	Building Permits	10/28/2019	08:30 AM	Wholesale Inventories MoM
10/09/2019	02:00 PM	FOMC Meeting Minutes	10/17/2019	08:30 AM	Housing Starts	10/28/2019	10:30 AM	Dallas Fed Manf. Activity
10/10/2019	08:30 AM	Real Avg Weekly Earnings YoY	10/17/2019	08:30 AM	Housing Starts MoM	10/29/2019	09:00 AM	S&P CoreLogic CS 20-City MoM SA
10/10/2019	08:30 AM	CPI MoM	10/18/2019	10:00 AM	Leading Index	10/29/2019	09:00 AM	S&P CoreLogic CS 20-City YoY NSA
10/10/2019	08:30 AM	CPI Ex Food and Energy MoM	10/22/2019	10:00 AM	Richmond Fed Manufact. Index	10/29/2019	10:00 AM	Pending Home Sales NSA YoY
10/11/2019	08:30 AM	Import Price Index ex Petroleum MoM	10/22/2019	10:00 AM	Existing Home Sales	10/29/2019	10:00 AM	Conf. Board Consumer Confidence
10/11/2019	08:30 AM	Import Price Index YoY	10/22/2019	10:00 AM	Existing Home Sales MoM	10/30/2019	07:00 AM	MBA Mortgage Applications
10/11/2019	08:30 AM	Export Price Index MoM	10/23/2019	07:00 AM	MBA Mortgage Applications	10/30/2019	08:15 AM	ADP Employment Change
10/11/2019	08:30 AM	Export Price Index YoY	10/24/2019	08:30 AM	Durable Goods Orders	10/30/2019	08:30 AM	GDP Annualized QoQ
10/11/2019	09:45 AM	Bloomberg Oct. US Economic Survey	10/24/2019	08:30 AM	Durables Ex Transportation	10/30/2019	08:30 AM	Personal Consumption
10/15/2019	08:30 AM	Empire Manufacturing	10/24/2019	08:30 AM	Cap Goods Orders Nondet Ex Air	10/30/2019	02:00 PM	Interest Rate on Excess Reserves
10/16/2019	07:00 AM	MBA Mortgage Applications	10/24/2019	08:30 AM	Cap Goods Ship Nondet Ex Air	10/31/2019	07:30 AM	Challenger Job Cuts YoY
10/16/2019	08:30 AM	Retail Sales Advance MoM	10/24/2019	08:30 AM	Initial Jobless Claims	10/31/2019	08:30 AM	Employment Cost Index
10/16/2019	08:30 AM	Retail Sales Ex Auto MoM	10/25/2019	10:00 AM	U. of Mich. Current Conditions	10/31/2019	08:30 AM	Personal Income

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of September 30, 2019.

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