



Monthly Market Review

“Economic clouds thicken as markets remain resilient.”

Economic Highlights

- The COVID-19 surge in the U.S. that began in July peaked in September before trailing off sharply. The overall toll remains staggering, with 44 million cases and more than 700,000 deaths in the U.S. The surge impaired economic activity over the few months.
- The labor market is showing evidence of the stresses of the COVID-19 economy. Job gains in September disappointed for a second straight month as the U.S. economy added only 194,000 new jobs, far short of expectations for roughly 500,000 and well below the average of 641,000 for the first seven months of the year. Meanwhile, the workweek lengthened, the labor force shrank and the labor participation rate fell. This led to a 0.4% decline in the unemployment rate to 4.8%. Output in the economy now surpasses the pre-COVID period but there are about five million fewer people employed.
- On the inflation front, the consumer price index (CPI) rose 5.3% for the twelve months through August, down slightly from the prior month. Surging prices for energy and new and used cars accounted for more than half the overall gain. The producer price index (PPI) rose for the eighth straight month, reaching a whopping 8.3% increase over the past year as commodity prices remain elevated.
- At the September Federal Open Market Committee (FOMC) meeting, Federal Reserve (Fed) Chair Jerome Powell said that the central bank could begin scaling back asset purchases as soon as November and complete the process by mid-2022. Powell assured investors that tapering does not start the clock on interest rate hikes.
- In its quarterly summary of economic projections, the Fed lowered its expectation for GDP growth in 2021 but raised its forecast for 2022 and 2023 modestly. The central bank raised its median projection for inflation by sizable amounts for 2021, but its forecasts continue to express the view that inflation will be transitory as projections for 2023 and beyond were little changed. The Fed revealed that half of the FOMC's 18 survey participants now expect to lift interest rates at least once in 2022. For 2023, the median target range was raised to 1.00%.

Bond Markets

- U.S. Treasury yields rose and the yield curve steepened as the bond market priced in recovery from the recent spike in COVID-19 infections and the Fed's more aggressive tapering timetable. The yield on the benchmark 10-year note jumped 18 basis points (bps) to end the month at 1.49%. Meanwhile, the yield on the 2-year note rose by seven bps to 0.28%, while the yield on the 3-month Treasury bill was unchanged at 0.03%. The third quarter trading ranges were quickly breached in early October with persistent upward pressure on rates.
- Yield volatility on very short-term Treasuries reflected the uncertainty around the political maneuvering over an extension

of the U.S. debt ceiling. At first, the focus was on a mid-October drop-dead date but Congress passed a nine-week spending bill in early October to avert a government shutdown and a similar extension for the debt ceiling. This likely just pushes the political brinkmanship to early December.

- Treasury benchmark returns suffered from the rise in rates across the curve. While securities with maturities inside one year held value, 5- and 10-year Treasury indexes lost 1.0% and 2.0%, respectively, in September.
- Investment-grade (IG) corporate issuance was strong despite recent rate volatility. Gross issuance in September totaled \$167 billion, but investor appetite remains quite robust and yield spreads to Treasuries are modest.

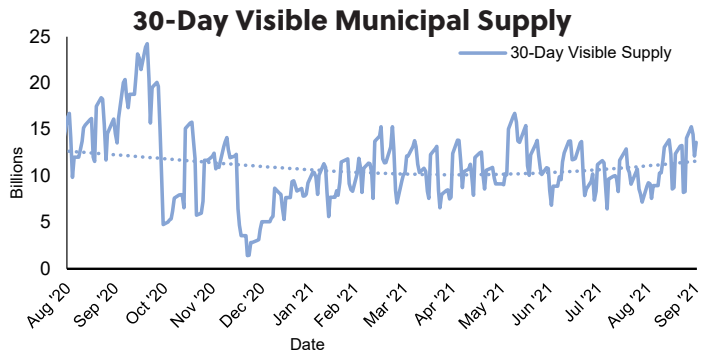
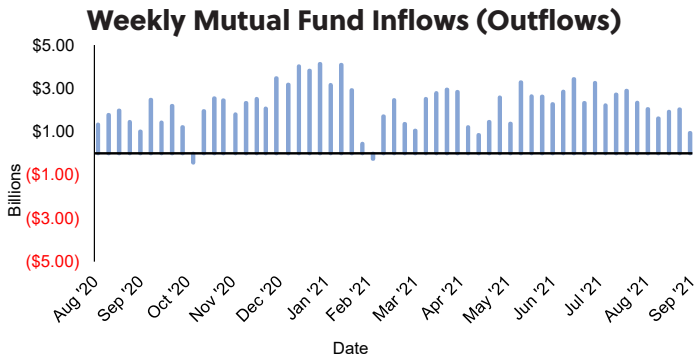
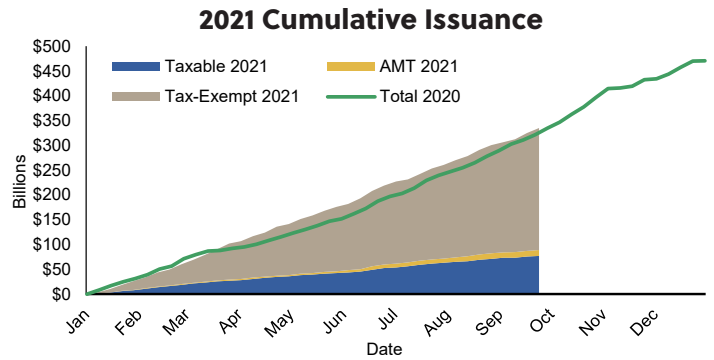
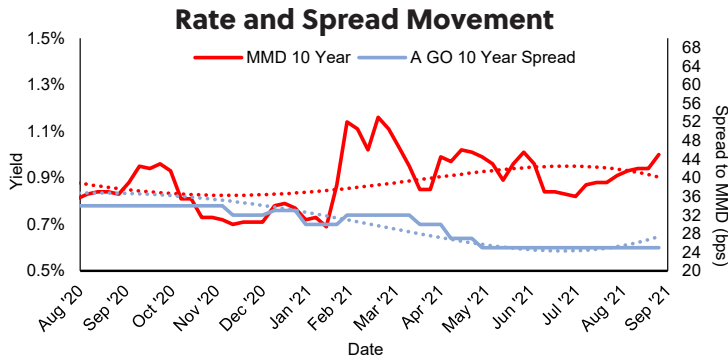
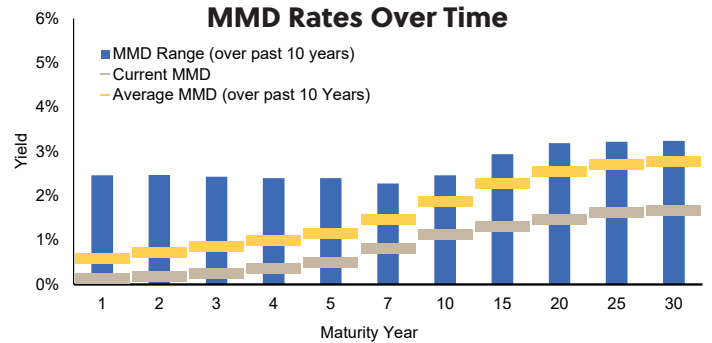
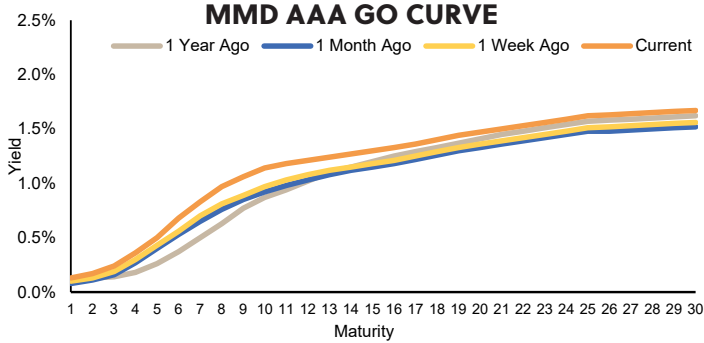
Municipal Bond Market

- Municipal new issuance fell in September by 17.7% to \$44.0 billion, from \$53.5 billion the same month last year. Total municipal new issuance for 2021 is up 0.03% to \$355.1 billion through the same period as last year compared to the \$355.0 billion recorded in 2020, according to the Municipal Market Monitor (TM3) data.
- September experienced positive bond fund flows throughout the month and ended with net inflows totaling \$8.6 billion, following August's net inflows of \$10.6 billion, according to Investment Company Institute (ICI) data.
- In September, the Municipal Market Data (MMD) Index experienced rising rates across the curve. The 1-year rate increased 5 bps to 0.13%, and the 3-year rate rose 8 bps to 0.24%. The 5-year rate rose 10 bps to 0.50% and the 10-year rate increased 15 bps to 1.14%. On the long end, the 30-year rate increased to 1.67% from 1.52%, in August, according to TM3 data.
- During September, the 10-year MMD Single-A General Obligation (GO) Index credit spread remained constant at 25 bps, and the Double-A GO Index credit also remained unchanged at 12 bps.
- Municipal-to-Treasury ratios experienced mixed changes across the curve in September. The 2-year ratio increased to 58.8% from 52.6%, while the 5-year ratio decreased to 50.3% from 51.7% last month. The intermediate-term ratio grew to 62.6% from 60.1%, and the 10-year ratio rose to 74.6% from 70.6% in August. The 30-year ratio increased in September to 79.8% from 78.9% last month, according to TM3 data.
- The Municipal curve steepened in September, with the AAA MMD 2- through 10-year slope increasing to 97 bps from 81 bps in August. The slope between the AAA MMD 2- through 30-year rose to 150 bps from 141 bps in August.

Spot Rates				
Term	Current 9/30/2021	1 Week Ago 9/23/2021	1 Month Ago 8/31/2021	1 Year Ago 9/30/2020
2-Year	0.17	0.13	0.11	0.13
3-Year	0.24	0.19	0.16	0.14
5-Year	0.50	0.43	0.40	0.26
7-Year	0.83	0.70	0.65	0.50
10-Year	1.14	0.97	0.92	0.87
30-Year	1.67	1.56	1.52	1.62

Change in Spot Rate (basis points)			
Term	1 Week Ago 9/23/2021	1 Month Ago 8/31/2021	1 Year Ago 9/30/2020
2-Year	4	6	4
3-Year	5	8	10
5-Year	7	10	24
7-Year	13	18	33
10-Year	17	22	27
30-Year	11	15	5

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.17%	0.28%	0.25%
3-Year	0.24%	0.51%	0.43%
5-Year	0.50%	0.97%	0.77%
7-Year	0.83%	1.29%	1.01%
10-Year	1.14%	1.49%	1.24%
30-Year	1.67%	2.05%	1.67%



Economic Calendar								
Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
10/08/2021	12:00 AM	Wholesale Inventories MoM	10/15/2021	08:30 AM	Import Price Index ex Petroleum MoM	10/22/2021	09:45 AM	Markit US Composite PMI
10/08/2021	10:00 AM	Wholesale Trade Sales MoM	10/15/2021	08:30 AM	Retail Sales Control Group	10/25/2021	08:30 AM	Chicago Fed Nat Activity Index
10/12/2021	06:00 AM	NFIB Small Business Optimism	10/15/2021	08:30 AM	Import Price Index YoY	10/25/2021	10:30 AM	Dallas Fed Manf. Activity
10/12/2021	10:00 AM	JOLTS Job Openings	10/15/2021	08:30 AM	Export Price Index MoM	10/26/2021	10:00 AM	Conf. Board Consumer Confidence
10/13/2021	07:00 AM	MBA Mortgage Applications	10/18/2021	09:15 AM	Capacity Utilization	10/26/2021	10:00 AM	Conf. Board Present Situation
10/13/2021	08:30 AM	CPI Index NSA	10/18/2021	09:15 AM	Manufacturing (SIC) Production	10/26/2021	10:00 AM	Conf. Board Expectations
10/13/2021	08:30 AM	CPI Core Index SA	10/18/2021	10:00 AM	NAHB Housing Market Index	10/26/2021	10:00 AM	Richmond Fed Manufact. Index
10/13/2021	08:30 AM	Real Avg Hourly Earning YoY	10/18/2021	04:00 PM	Total Net TIC Flows	10/27/2021	08:30 AM	Retail Inventories MoM
10/13/2021	08:30 AM	Real Avg Weekly Earnings YoY	10/19/2021	08:30 AM	Housing Starts	10/27/2021	08:30 AM	Durable Goods Orders
10/13/2021	02:00 PM	FOMC Meeting Minutes	10/19/2021	08:30 AM	Housing Starts MoM	10/27/2021	08:30 AM	Durables Ex Transportation
10/14/2021	08:30 AM	PPI Ex Food and Energy MoM	10/20/2021	07:00 AM	MBA Mortgage Applications	10/28/2021	08:30 AM	Personal Consumption
10/14/2021	08:30 AM	PPI Ex Food, Energy, Trade MoM	10/20/2021	02:00 PM	U.S. Fed Releases Beige Book	10/28/2021	08:30 AM	GDP Price Index
10/14/2021	08:30 AM	PPI Final Demand YoY	10/21/2021	08:30 AM	Initial Jobless Claims	10/28/2021	08:30 AM	Core PCE QoQ
10/14/2021	08:30 AM	PPI Ex Food and Energy YoY	10/21/2021	09:45 AM	Langer Consumer Comfort	10/29/2021	10:00 AM	U. of Mich. Sentiment
10/14/2021	08:30 AM	PPI Ex Food, Energy, Trade YoY	10/21/2021	10:00 AM	Leading Index	10/29/2021	10:00 AM	U. of Mich. Current Conditions

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

