



Monthly Market Review

"Economic clouds thicken as markets remain resilient."

Economic Highlights

- The rising summer tide of coronavirus infections seems to have drowned out optimism about the economic recovery. Daily cases have risen to levels not seen since the beginning of the year, and vaccination rates have slowed at a time when relief from the Federal government is subsiding. As the summer ends, a COVID-weary country may face a distressing reality check.
- Consumers tightened their purse strings as COVID-19 Delta variant concerns and renewed public health restrictions clouded financial prospects. Headline retail sales fell 1.1% in July.
- The economy added only 235,000 jobs in August, falling far short of economists' estimates of 735,000 jobs and the weakest posting since January. It appears that potential workers have pulled back from the labor force because of renewed COVID-19 concerns. Although the unemployment rate fell to 5.2% from 5.4%, the labor force participation rate remained 1.6% below pre-pandemic levels. The number of persons unable to work because their employer closed or lost business due to the pandemic rose. A bright spot in the labor market reports is that average hourly earnings rose 4.3% over the past year.
- Supply-chain challenges, rising commodity costs, and materials and labor shortages are now weighing on business conditions. Surveys of purchasing managers for August signaled slowing manufacturing and services activity, albeit both still expansionary.
- At the annual Jackson Hole symposium on monetary policy, Federal Reserve (Fed) Chair Jerome Powell said the tapering of asset purchases could begin this year as the U.S. economy recovers from the pandemic, but the central bank will not be in a hurry to raise interest rates. He also reiterated the Fed's belief that the current spike in inflation is likely to be transitory.

Bond Markets

- Treasury yields generally rose during August, with those on maturities between five and 10 years jumping by six to nine basis points (bps). However, the 10-year Treasury note yield ended August 44 bps below its spring peak, reflecting a more sanguine view about inflation, longer-term economic growth prospects, and a patient Fed.
- The U.S. Treasury continued to issue new bonds to fund the deficit, but monthly volume has been steady through the year. Reductions are likely later this year as Federal fiscal stimulus costs wane. Issuance may also be disrupted by the expiration of the debt limit suspension, which will prevent increased issuance until the limit is extended, and then likely result in a flood to make up for lost capacity.

- Indicative of the surfeit of cash in the short-term markets, usage of the Fed's Reverse Repo Facility has remained above \$1 trillion per day since mid-August. In fact, it may become necessary for the Fed to raise its per-counterparty limit to add capacity and keep overnight rates above true zero.
- Returns on Treasury indices were generally negative for the month as yields rose across most maturities. The 5- and 10-year Treasury indices returned -0.2% and -0.3%, respectively.

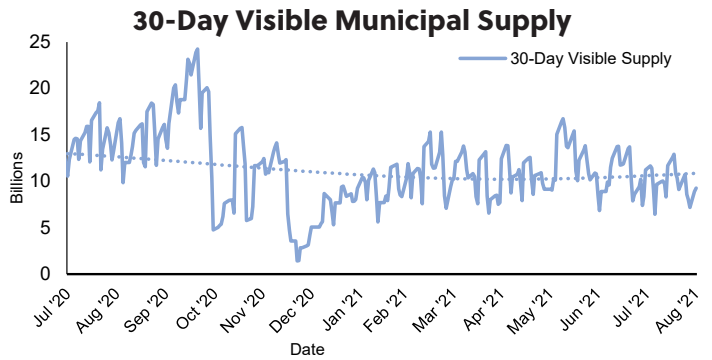
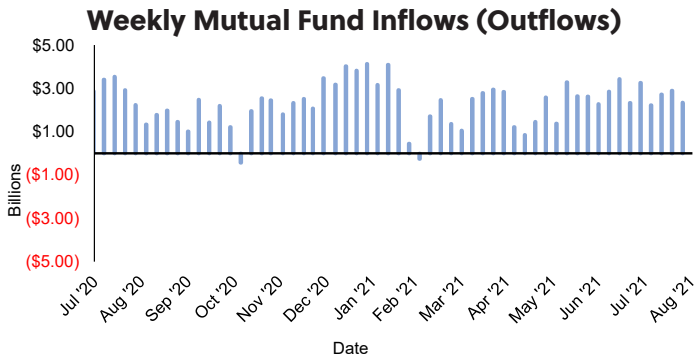
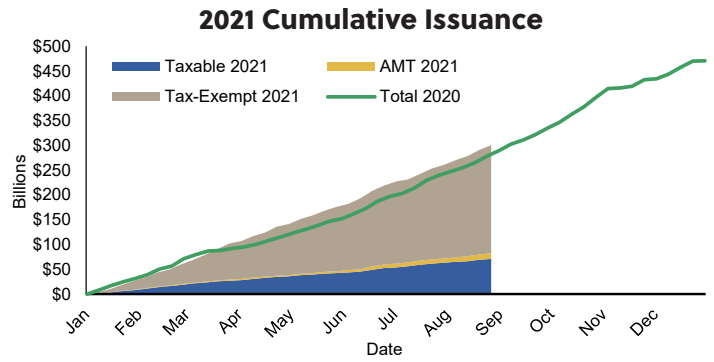
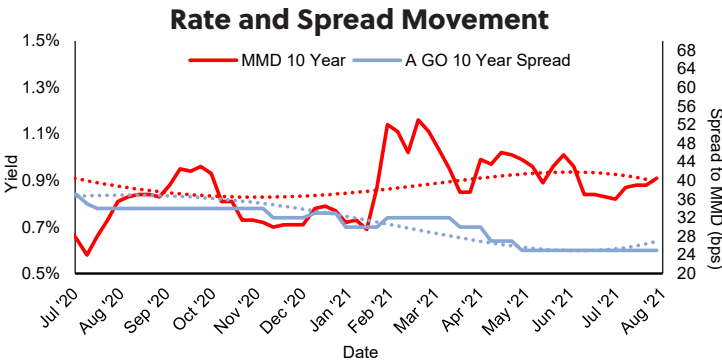
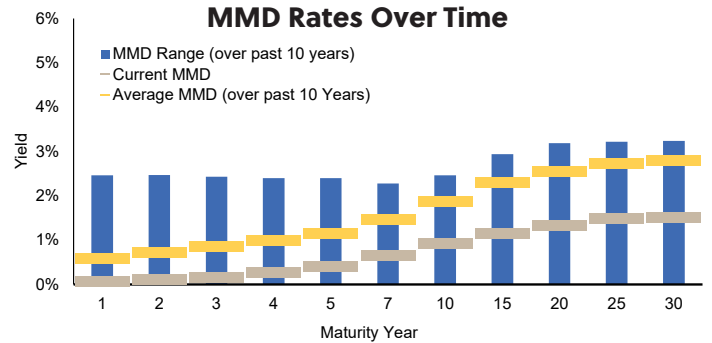
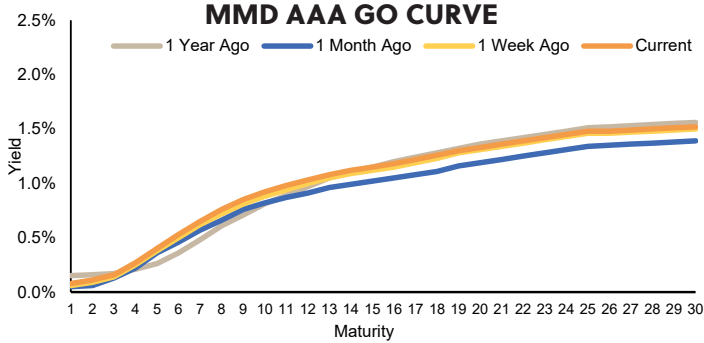
Municipal Bond Market

- Municipal new issuance fell in August by 4% to \$41.6 billion, from \$43.4 billion the same month last year. Total municipal new issuance for 2021 is up 2.5% to \$309.1 billion for the year to date compared to the \$301.5 billion recorded for the same period last year in 2020, according to the Municipal Market Monitor (TM3) data.
- August experienced positive bond flows throughout the month and ended with net inflows totaling \$10.2 billion, following July's net inflows of \$12.3 billion, according to Investment Company Institute (ICI) data.
- In August, the Municipal Market Data (MMD) Index experienced rising rates across the curve. The 1-year rate increased 3 bps to 0.08%, and the 3-year rate also rose 3 bps to 0.16%. The 5-year rate rose 4 bps to 0.40%, from 0.36%, and the 10-year rate increased 10 bps to 0.92%. On the long end, the 30-year rate increased 13 bps to 1.52% from 1.39%, in July, according to TM3 data.
- During August, the 10-year MMD Single-A General Obligation (GO) Index credit spread remained constant at 25 bps, and the Double-A GO Index credit fell slightly to 12 bps.
- Municipal-to-Treasury ratios experienced increasing rates across the curve in August. The 2-year ratio increased to 52.6% from 31.6%, and the 5-year ratio rose to 51.7% from 51.2% last month. The intermediate-term ratio grew to 60.1% from 56.4%, and the 10-year ratio rose to 70.6% from 66.7% in July. The 30-year ratio increased in August to 78.9% from 73.4% last month, according to TM3 data.
- The Municipal curve steepened in August, with the AAA MMD 2-through 10-year slope increasing to 81 bps from 76 bps in July. The slope between the AAA MMD 2- through 30-year rose to 141 bps from 133 bps in July.

Spot Rates				
Term	Current 8/31/2021	1 Week Ago 8/24/2021	1 Month Ago 7/30/2021	1 Year Ago 8/31/2020
2-Year	0.11	0.09	0.06	0.16
3-Year	0.16	0.14	0.13	0.17
5-Year	0.40	0.38	0.36	0.26
7-Year	0.65	0.62	0.57	0.48
10-Year	0.92	0.88	0.82	0.81
30-Year	1.52	1.50	1.39	1.56

Change in Spot Rate (basis points)			
Term	1 Week Ago 8/24/2021	1 Month Ago 7/30/2021	1 Year Ago 8/31/2020
2-Year	2	5	-5
3-Year	2	3	-1
5-Year	2	4	14
7-Year	3	8	17
10-Year	4	10	11
30-Year	2	13	-4

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	0.11%	0.21%	0.18%
3-Year	0.16%	0.41%	0.33%
5-Year	0.40%	0.78%	0.62%
7-Year	0.65%	1.09%	0.83%
10-Year	0.92%	1.31%	1.04%
30-Year	1.52%	1.93%	1.47%



Economic Calendar								
Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
09/09/2021	12:00 AM	Initial Jobless Claims	09/15/2021	08:30 AM	Export Price Index MoM	09/23/2021	09:45 AM	Markit US Services PMI
09/09/2021	08:30 AM	Continuing Claims	09/15/2021	08:30 AM	Export Price Index YoY	09/23/2021	09:45 AM	Markit US Composite PMI
09/09/2021	09:45 AM	Langer Consumer Comfort	09/15/2021	09:15 AM	Industrial Production MoM	09/23/2021	10:00 AM	Leading Index
09/10/2021	08:30 AM	PPI Final Demand MoM	09/16/2021	08:30 AM	Retail Sales Control Group	09/24/2021	10:00 AM	New Home Sales
09/10/2021	08:30 AM	PPI Ex Food and Energy MoM	09/16/2021	09:45 AM	Langer Consumer Comfort	09/24/2021	10:00 AM	New Home Sales MoM
09/10/2021	10:00 AM	Wholesale Trade Sales MoM	09/16/2021	10:00 AM	Business Inventories	09/27/2021	08:30 AM	Durable Goods Orders
09/13/2021	02:00 PM	Monthly Budget Statement	09/17/2021	10:00 AM	U. of Mich. Sentiment	09/27/2021	08:30 AM	Durables Ex Transportation
09/14/2021	06:00 AM	NFIB Small Business Optimism	09/17/2021	10:00 AM	U. of Mich. Current Conditions	09/28/2021	08:30 AM	Wholesale Inventories MoM
09/14/2021	08:30 AM	Real Avg Weekly Earnings YoY	09/17/2021	10:00 AM	U. of Mich. Expectations	09/28/2021	08:30 AM	Retail Inventories MoM
09/14/2021	08:30 AM	CPI YoY	09/20/2021	10:00 AM	NAHB Housing Market Index	09/28/2021	09:00 AM	HFHA House Price Index MoM
09/14/2021	08:30 AM	CPI Ex Food and Energy YoY	09/21/2021	08:30 AM	Building Permits MoM	09/28/2021	09:00 AM	S&P CoreLogic CS 20-City MoM SA
09/14/2021	08:30 AM	CPI Index NSA	09/21/2021	08:30 AM	Building Permits	09/29/2021	10:00 AM	Pending Home Sales NSA YoY
09/14/2021	08:30 AM	CPI Core Index SA	09/22/2021	07:00 AM	MBA Mortgage Applications	09/30/2021	08:30 AM	Initial Jobless Claims
09/14/2021	08:30 AM	Real Avg Hourly Earning YoY	09/22/2021	10:00 AM	Existing Home Sales	09/30/2021	08:30 AM	GDP Annualized QoQ
09/15/2021	08:30 AM	Empire Manufacturing	09/22/2021	10:00 AM	Existing Home Sales MoM	09/30/2021	08:30 AM	Personal Consumption

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

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