



## Monthly Market Review

Spring has sprung: inch by inch, rates are moving higher; row by row, the world economy is strengthening; and the markets seem to have settled into a predictable pattern, all but ignoring the toxic global political environment.

### Economic Highlights

- Market volatility subsided even as interest rates marched higher. Economic data was generally favorable, but the political situation remains uncertain on trade, immigration and policies involving North Korea and the Iran nuclear deal.
- The initial estimate for 2018 first quarter U.S. Gross Domestic Product (GDP) indicated the economy grew at an annualized rate of 2.3%, down-shifting from the stronger growth of the prior three quarters.
- At their early May meeting, the Federal Open Market Committee (FOMC) left overnight rates unchanged at the current target range of 1.50 to 1.75%. In the accompanying statement, the Federal Reserve (Fed) acknowledged strong job gains, strong business investment and expressed a more confident tone regarding inflation's move towards the 2% target rate.
- On the inflation front, the core Personal Consumption Expenditures (PCE) price index moved higher, reaching 1.9% year-over-year in March. Investor expectations about inflation have followed suit as the 10-year Treasury Inflation Protected Securities (TIPS) breakeven, the embedded market expectation for inflation over the next 10 years, reached a four-year high.
- Although net job gains were below expectations for April, the unemployment rate fell to 3.9%, the lowest level since 2000. In another sign of the strength of the U.S. labor market, the weekly tally of initial claims for unemployment insurance reached the lowest level since 1969.

### Bond Markets

- U.S. Treasury yields rose during April as inflation expectations took center stage. Most notably, the curve steepened. The six-month Treasury note increased nine basis points (bps) to end April at 2.0%, while the five-year increased 24 bps to 2.8%. The 10-year Treasury briefly breached the psychologically important 3.0% level for the first time since 2014.
- As a result of higher yields, the majority of fixed-income indices with maturities greater than one year posted negative absolute returns in April. It was better to be shorter over the month, as shorter-duration portfolios outperformed their longer-tenored counterparts. The

10-year Constant Maturity Treasury (CMT) index returned -1.4% for the month, offsetting the prior months' return. The six-month Treasury index generated 0.16% of positive performance.

- Among the best performers for April was short- to intermediate-term corporate bonds, as credit spread retraction from prior widening outpaced the adverse impact of higher yields in general. The Investment Grade (IG) corporate sector and high-quality Asset Backed Securities (ABS) benefited and produced attractive relative performance compared to most other fixed-income sectors.

### Municipal Bond Market

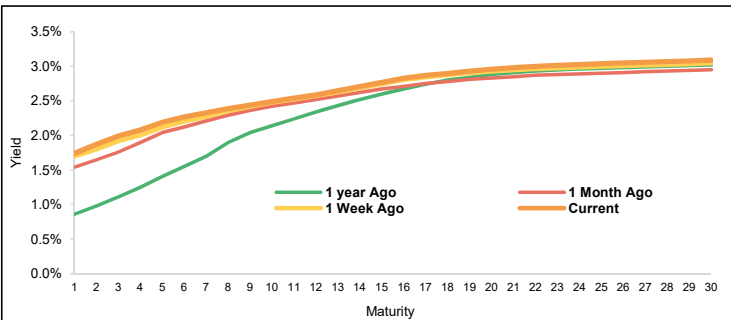
- Municipal new issuance slowed year-over-year in April with municipal bond sales dropping 3.6% to \$29.6 billion from \$30.7 billion the same month last year, according to the Municipal Market Monitor (TM3) data.
- April saw negative municipal bond flows each week throughout the month. Outflows totaled \$1.7 billion, a reversal of March's inflows of \$1.7 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Index Data (MMD) curve saw rising rates across both the short and long end of the curve in April. The one-year rate increased 20 basis points (bps) to 1.74%, while the three-year rate surged 23 bps to 1.99%. The five-year rate also climbed 15 bps to 2.19% and the 10-year rate rose seven bps to 2.49%. On the long end, the 30-year rate also increased 14 bps to 3.09% according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spreads and Double-A GO Index credit spreads saw tightening of 49 and 19 bps respectively, according to TM3 data.
- In April, Municipal/Treasury ratios were mixed with an increase in the short and long term and a decrease in the intermediate term. The two-year ratio climbed to 75.2% from 72.6% in March, and the five-year ratio fell to 78.6% from 79.5% last month. The intermediate-term ratio decreased to 80.4% from 82.2% in March, and the 10-year ratio declined to 84.8% from 88.2% last month. The 30-year ratio increased to 99.9% from 99.2% last month, according to TM3 data.
- The Municipal curve saw some flattening in April with the AAA MMD two- through 10-year slope ending at 62 bps, narrower than last month's 77 bps. The slope between the AAA MMD two- through 30-year tightened to 122 bps from March's 130 bps.

Spot Rates				
	Current 4/30/2018	1 Week Ago 4/23/2018	1 Month Ago 3/29/2018	1 Year Ago 4/28/2017
2-Year	1.87	1.80	1.65	0.98
3-Year	1.99	1.92	1.76	1.11
5-Year	2.19	2.12	2.04	1.41
7-Year	2.33	2.28	2.21	1.70
10-Year	2.49	2.48	2.42	2.14
30-Year	3.09	3.05	2.95	3.02

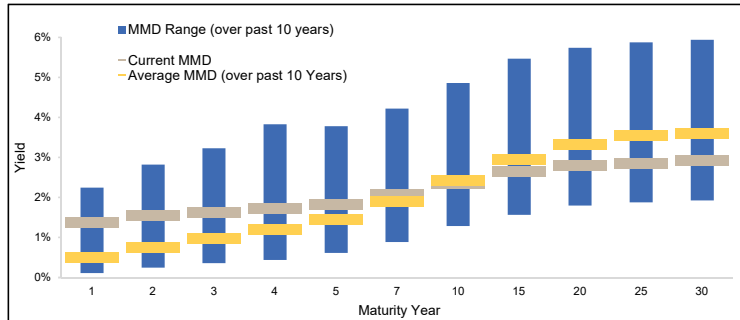
Change in Spot Rate (basis points)			
	1 Week Ago 4/23/2018	1 Month Ago 3/29/2018	1 Year Ago 4/28/2017
2-Year	7	22	89
3-Year	7	23	88
5-Year	7	15	78
7-Year	5	12	63
10-Year	1	7	35
30-Year	4	14	7

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.87%	2.49%	1.88
3-Year	1.99%	2.63%	1.98
5-Year	2.19%	2.80%	2.08
7-Year	2.33%	2.91%	2.17
10-Year	2.49%	2.95%	2.27
30-Year	3.09%	3.12%	2.51

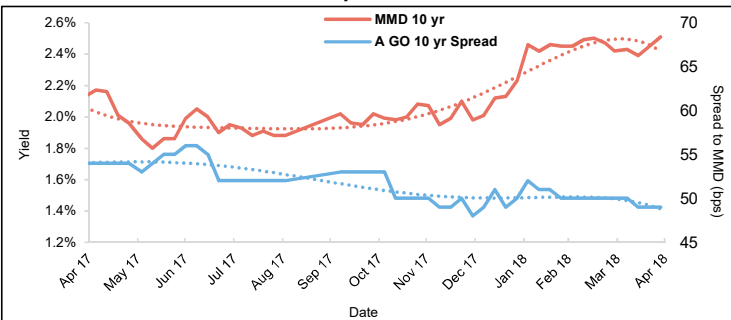
MMD AAA G.O. Curve



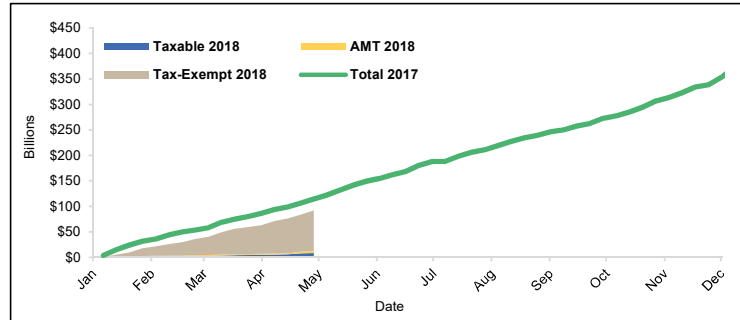
MMD Rates Over Time



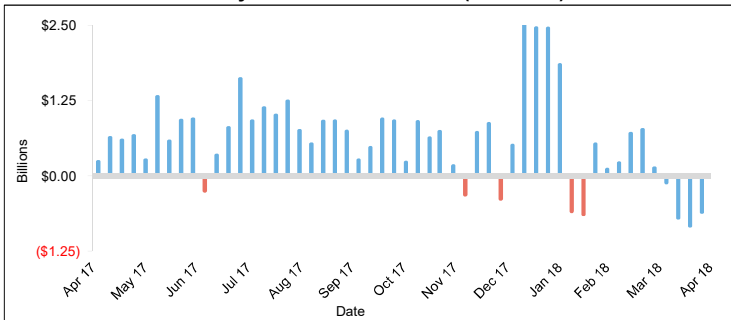
Rate and Spread Movement



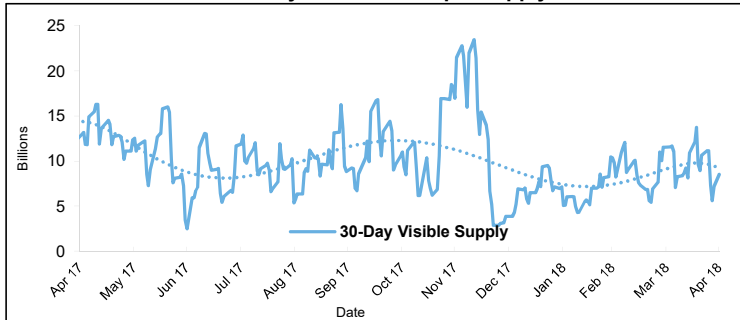
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
05/10/18	08:30 AM	CPI MoM	05/16/18	07:00 AM	MBA Mortgage Applications	05/24/18	09:00 AM	House Price Purchase Index QoQ Existing
05/10/18	08:30 AM	Initial Jobless Claims	05/16/18	08:30 AM	Housing Starts	05/24/18	10:00 AM	Home Sales
05/10/18	08:30 AM	Continuing Claims	05/16/18	08:30 AM	Building Permits	05/25/18	08:30 AM	Durable Goods Orders
05/10/18	08:30 AM	Real Avg Hourly Earning YoY	05/16/18	09:15 AM	Industrial Production MoM	05/25/18	10:00 AM	U. of Mich. Sentiment
05/10/18	09:45 AM	Bloomberg Consumer Comfort	05/16/18	09:15 AM	Manufacturing (SIC) Production	05/25/18	10:00 AM	U. of Mich. 1 Yr Inflation
05/10/18	02:00 PM	Monthly Budget Statement	05/16/18	09:15 AM	Capacity Utilization	05/25/18	10:00 AM	U. of Mich. 5-10 Yr Inflation
05/11/18	08:30 AM	Import Price Index MoM	05/17/18	08:30 AM	Initial Jobless Claims	05/30/18	08:30 AM	GDP Annualized QoQ
05/11/18	08:30 AM	Export Price Index MoM	05/17/18	08:30 AM	Continuing Claims	05/30/18	08:30 AM	Personal Consumption
05/11/18	10:00 AM	U. of Mich. Sentiment	05/17/18	08:30 AM	Philadelphia Fed Business Outlook	05/30/18	08:30 AM	GDP Price Index
05/11/18	10:00 AM	U. of Mich. 1 Yr Inflation	05/17/18	10:00 AM	Leading Index	05/30/18	08:30 AM	Core PCE QoQ
05/11/18	10:00 AM	U. of Mich. 5-10 Yr Inflation	05/23/18	09:45 AM	Markit US Composite PMI	05/30/18	08:30 AM	Retail Inventories MoM
05/15/18	08:30 AM	Empire Manufacturing	05/23/18	10:00 AM	New Home Sales	05/30/18	08:30 AM	Wholesale Inventories MoM
05/15/18	08:30 AM	Retail Sales Advance MoM	05/23/18	02:00 PM	FOMC Meeting Minutes	05/30/18	14:00 AM	U.S. Federal Reserve Releases Beige Book
05/15/18	10:00 AM	Business Inventories	05/24/18	08:30 AM	Initial Jobless Claims	05/31/18	08:30 AM	Personal Income
05/15/18	04:00 PM	Total Net TIC Flows	05/24/18	08:30 AM	Continuing Claims	05/31/18	08:30 AM	Personal Spending

Sources: Bloomberg, Thomson Reuters, and ICI. Unless otherwise noted, all data is presented as of April 30, 2018.

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