



Monthly Market Review

Growth surges in the second quarter, but will it last amid trade wars, a slowing housing market and more Federal Reserve (Fed) rate hikes?

Economic Highlights

- The first estimate for second-quarter gross domestic product (GDP) growth breached 4% for the first time since the third quarter of 2014. A strong rebound in consumer spending, sustained business investment, strong federal government defense spending and a surge in exports (in large part due to accelerated soybean exports to China ahead of tariffs) boosted economic expansion to a 4.1% annual rate.
- The trade war expanded as the Trump administration continues to threaten significant increases in tariffs on imports, the latest iteration being an increase from 10% to 25% on \$200 billion of Chinese imports. Not unexpectedly, China threatened retaliatory countermeasures.
- As expected, the Federal Open Market Committee (FOMC) left rates unchanged at its August 1 meeting. However, the post-meeting statement confirmed a likely September rate hike with more hikes to follow. The Fed upgraded its assessment of U.S. economic activity and household spending to “strong.”
- Across the pond, Eurozone GDP slowed further in the second quarter after a weak first quarter. Rising inflation, falling consumer sentiment and a strengthening U.S. dollar (USD) weighed on consumer spending in the region. In a surprisingly unanimous decision, the Bank of England raised its benchmark interest rate for only the second time in a decade, as inflation worries trumped concerns about Brexit.
- U.S. employment conditions remain positive. Despite headline job growth that missed expectations in July (157,000 versus 193,000), upward revisions to prior months make a 215,000 monthly average pace this year and confirm a robust labor market. The unemployment rate ticked lower to 3.9% in July, while average hourly earnings held steady at 2.7% year over year (YoY).
- Robust consumer spending contributed to building price pressures in the U.S. The consumer price index (CPI) rose 2.9% in the 12 months ending in June versus just 1.6% a year ago. The core personal consumption expenditures (PCE) price index – the Fed’s favorite inflation measure – rose modestly in June to 1.9% YoY. Expectations remain anchored around the Fed’s 2% target.

Bond Markets

- U.S. Treasury yields kicked off the third quarter by increasing across all maturities. The two-year Treasury rose the most, increasing by 14 basis points (bps) (0.14%) from 2.53% to 2.67% over the month. The yield curve remained near its flattest level in more than a decade.

- For total return investors, shorter-term maturities generally did better in July, as higher yields pushed the majority of Treasury benchmarks negative for the month (the exceptions being the shortest indices). For example, the three-month and 12-month Treasury indices returned 0.16% and 0.13%, respectively. Meanwhile, the three-year, 10-year and 30-year constant maturity Treasury indices fell 0.18%, 0.72% and 1.65%, respectively.
- Investment-grade credit spreads narrowed during July, benefiting returns in the corporate sector.
- Mortgage-backed securities (MBS) returns also outperformed Treasury benchmarks, though by smaller amounts, helped by low market volatility.

Municipal Bond Market

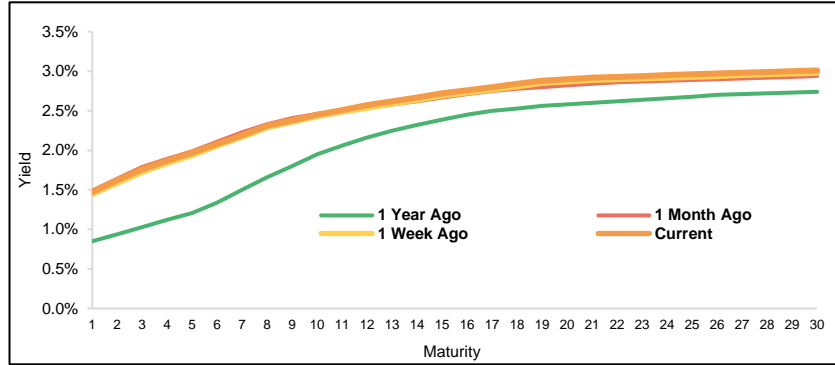
- Municipal new issuance increased YoY in July for the first time in 2018, with an 8.1% jump in municipal bond sales to \$27 billion from \$25 billion the same month last year. Year-to-date (YTD) municipal issuance is still down 15.2% to \$191.7 billion in the first seven months of 2018 from \$226 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- July brought positive bond flows throughout the month, with inflows totaling \$3.8 billion, following June’s net inflows of \$2.2 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index curve experienced falling rates across the front and intermediate parts of the curve in July. The one-year rate declined two bps to 1.47%, while the three-year rate dropped three bps to 1.76%. The five-year rate fell two bps to 1.97%, and the 10-year rate also dipped one bp to 2.45%. On the long end, the 30-year rate climbed seven bps to 3.01%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spreads and Double-A GO Index credit spreads tightened one bp to 47 and 17 bps, respectively, according to TM3 data.
- In July, Municipal/Treasury ratios decreased throughout the yield curve. The two-year ratio fell to 60.7% from 64.8% in June, and the five-year ratio declined to 69.2% from 72.9% last month. The intermediate-term ratio decreased to 74.9% from 79.1% in June, while the 10-year ratio dropped to 82.7% from 86.3% last month. The 30-year ratio also fell to 97.6% from 98.3% last month, according to TM3 data.
- The Municipal curve saw steepening in July, with the AAA MMD two- through 10-year slope ending at 83 bps, slightly wider than last month’s 82 bps. The slope between the AAA MMD two- through 30-year widened to 139 bps from June’s 130 bps.

Spot Rates				
	Current 7/31/2018	1 Week Ago 7/24/2018	1 Month Ago 6/29/2018	1 Year Ago 7/31/2017
2-Year	1.62	1.59	1.64	0.94
3-Year	1.76	1.73	1.79	1.03
5-Year	1.97	1.94	1.99	1.21
7-Year	2.19	2.17	2.23	1.50
10-Year	2.45	2.43	2.46	1.95
30-Year	3.01	2.98	2.94	2.74

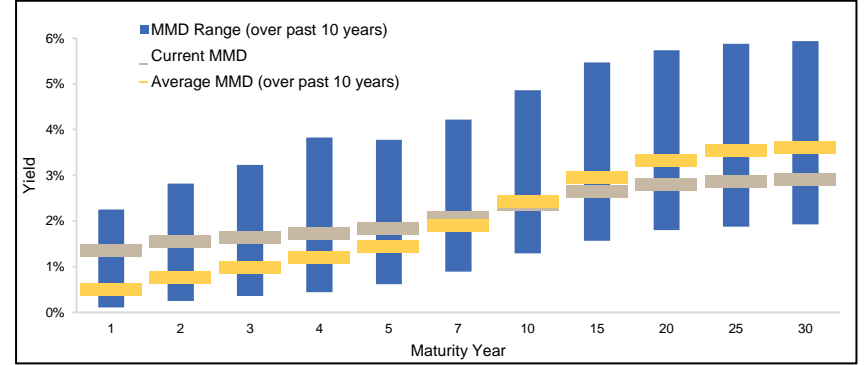
Change in Spot Rate (basis points)			
	1 Week Ago 7/24/2018	1 Month Ago 6/29/2018	1 Year Ago 7/31/2017
2-Year	3	-2	68
3-Year	3	-3	73
5-Year	3	-2	76
7-Year	2	-4	69
10-Year	2	-1	50
30-Year	3	7	27

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.62%	2.67%	1.84
3-Year	1.76%	2.77%	1.94
5-Year	1.97%	2.85%	2.05
7-Year	2.19%	2.93%	2.14
10-Year	2.45%	2.96%	2.24
30-Year	3.01%	3.08%	2.49

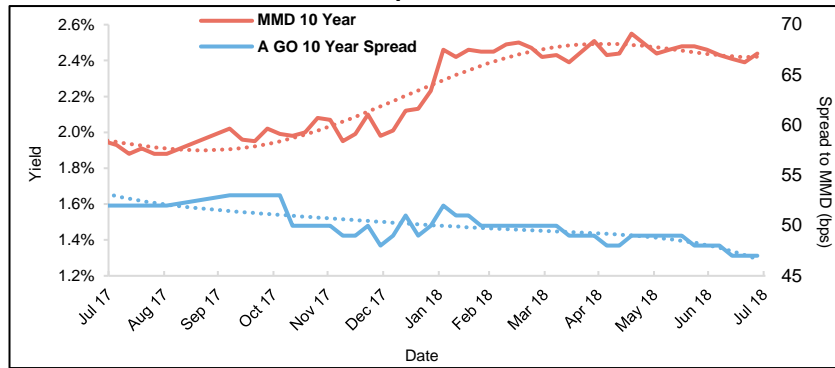
MMD AAA GO Curve



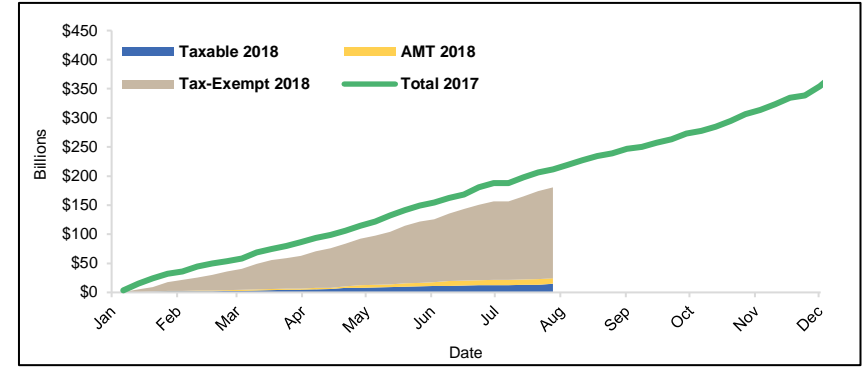
MMD Rates Over Time



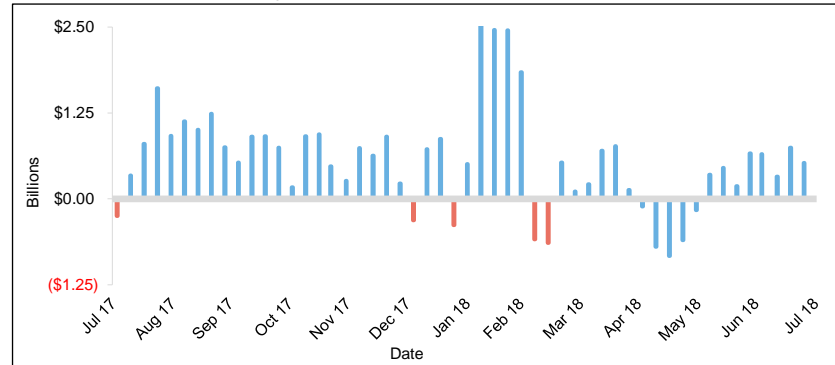
Rate and Spread Movement



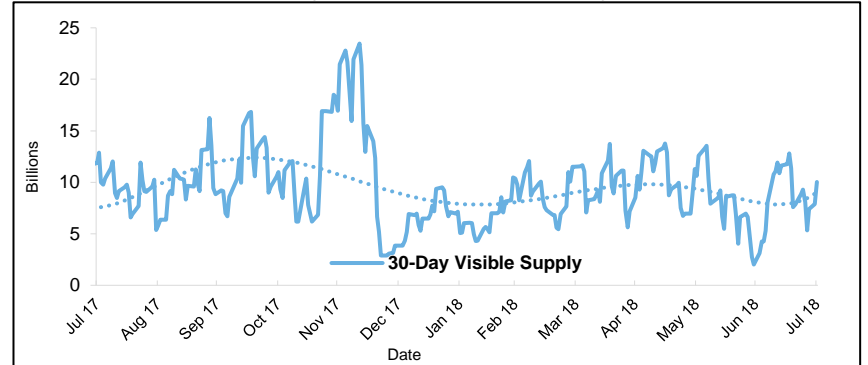
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
08/14/18	06:00 AM	NFIB Small Business Optimism	08/16/18	09:45 AM	Bloomberg Economic Expectations	08/27/18	08:30 AM	Chicago Fed Nat Activity Index
08/14/18	08:30 AM	Import Price Index MoM	08/16/18	09:45 AM	Bloomberg Consumer Comfort	08/27/18	10:30 AM	Dallas Fed Manf. Activity
08/14/18	08:30 AM	Export Price Index MoM	08/17/18	10:00 AM	Leading Index	08/28/18	08:30 AM	Advance Goods Trade Balance
08/15/18	08:30 AM	Nonfarm Productivity	08/17/18	10:00 AM	U. of Mich. Current Conditions	08/28/18	08:30 AM	Wholesale Inventories MoM
08/15/18	08:30 AM	Empire Manufacturing	08/17/18	10:00 AM	U. of Mich. Expectations	08/28/18	08:30 AM	Retail Inventories MoM
08/15/18	08:30 AM	Retail Sales Advance MoM	08/22/18	07:00 AM	MBA Mortgage Applications	08/28/18	09:00 AM	S&P CoreLogic CS 20-City MoM SA
08/15/18	08:30 AM	Unit Labor Costs	08/22/18	02:00 PM	FOMC Meeting Minutes	08/28/18	10:00 AM	Richmond Fed Manufact. Index
08/15/18	09:15 AM	Industrial Production MoM	08/23/18	08:30 AM	Initial Jobless Claims	08/28/18	10:00 AM	Conf. Board Consumer Confidence
08/15/18	09:15 AM	Capacity Utilization	08/23/18	09:00 AM	FHFA House Price Index MoM	08/29/18	07:00 AM	MBA Mortgage Applications
08/15/18	10:00 AM	Business Inventories	08/23/18	09:45 AM	Bloomberg Consumer Comfort	08/29/18	08:30 AM	GDP Annualized QoQ
08/15/18	10:00 AM	NAHB Housing Market Index	08/23/18	09:45 AM	Markit US Manufacturing PMI	08/29/18	08:30 AM	Personal Consumption
08/15/18	04:00 PM	Total Net TIC Flows	08/23/18	09:45 AM	Markit US Services PMI	08/29/18	08:30 AM	GDP Price Index
08/16/18	08:30 AM	Philadelphia Fed Business Outlook	08/23/18	10:00 AM	New Home Sales	08/30/18	08:30 AM	PCE Core YoY
08/16/18	08:30 AM	Initial Jobless Claims	08/23/18	11:00 AM	Kansas City Fed Manf. Activity	08/31/18	10:00 AM	U. of Mich. Current Conditions
08/16/18	08:30 AM	Building Permits	08/24/18	08:30 AM	Durable Goods Orders	08/31/18	10:00 AM	U. of Mich. Expectations

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of July 31, 2018.

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