



Monthly Market Review

Markets apparently have found their footing after winter brought discontent. Investors plod forward on the slow-growth path.

Economic Highlights

- December was not for the faint of heart as 2018 ended with surging volatility, worldwide equity sell-offs, U.S. Treasury yield curve inversion, trade tensions, and a partial government shutdown. Surprisingly, for the moment, some calm has returned, with the backdrop of “steady-as-she-goes” for the U.S. economy.
- The Federal Reserve (Fed) is recalibrating monetary policy. While the median consensus of Fed governors is for two rate hikes in 2019, the market expectation is for none (as measured by federal funds futures). Fed Chair Jerome Powell tempered expectations in a recent speech, expressing that the Fed is “prepared to adjust policy quickly and flexibly” if necessary, and other Fed policy makers have joined in tempering expectations.
- The U.S. labor market, a pillar of optimism, remains strong. The most recent jobs report showed nonfarm payrolls increased by 312,000 in December, significantly outpacing expectations. And while the unemployment rate moved up from 3.7% to 3.9%, the increase was attributed to more workers joining the labor force, a positive development.
- Geopolitical risks continue to weigh on the markets. Global political uncertainty combined with concerns about slower global growth (especially in the Eurozone and China) triggered wild gyrations in stock prices and bond yields. In particular, yields on intermediate- and longer-term U.S. Treasuries plummeted in December, falling by as many as 34 basis points (0.34%) in the month.
- A protracted U.S. government shutdown could derail the economy and the markets. The shutdown began at midnight on December 21, affecting nine important federal agencies. The Trump administration and lawmakers have thus far failed to reach an agreement on the necessary appropriations bills to fund the government. The longer it goes on, the more likely it will crimp economic growth well into 2019.
- Around the world, the pace of manufacturing has slowed. The Eurozone PMI Manufacturing Index posted the weakest figure since February 2016, while China’s Manufacturing PMI posted a sub-50 percent reading, indicating contraction in the sector and affirming a slowdown in the Chinese economy.

Bond Markets

- In December, the U.S. Treasury yield curve inverted between two- and five-year maturities for the first time since 2007. Yields on maturities greater than two years rallied 25 to 30 basis points, while shorter-term yields were pinned to the steady federal funds rate.

- As a result of falling yields, fixed income returns were strong for the month. For example, the 2-Year and 5-Year Constant Maturity U.S. Treasury Indices returned 0.81% and 1.85%, respectively. Meanwhile, the 30-Year Index generated 5.96% total return just for the month.

Municipal Bond Market

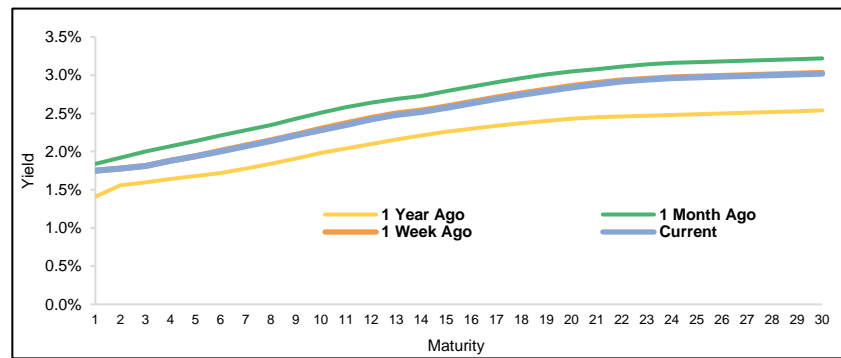
- Municipal new issuance decreased in December by 68.3% to \$22.1 billion from \$69.8 billion the same month last year. Municipal new issuance is down 24.4% to \$339.1 billion in 2018 from \$448.6 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- December brought mixed bond flows throughout the month, ultimately ending with net outflows totaling \$56 million, following November’s net outflows of \$3.8 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced an improvement in rates across the yield curve in December. The one-year rate decreased 9 basis points (bps) to 1.75%, while the three-year rate dropped 19 bps to 1.81%. The five-year rate fell 20 bps to 1.94%, and the 10-year rate declined 23 bps to 2.28%. On the long end, the 30-year rate also fell 20 bps to 3.02%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread remained at 47 bps while the Double-A GO Index credit spread fell by 1 bp to 16 bps, according to TM3 data.
- In December, Municipal/Treasury ratios rose across the entire yield curve. The two-year ratio climbed to 71.3% from 68.3% in November, and the five-year ratio increased to 77.1% from 75.2%. The intermediate-term ratio grew to 79.9% from 77.9%, while the 10-year ratio rose to 85.1% from 83.3%. The 30-year ratio also moved higher to 100.7% from 97.3%, according to TM3 data.
- The Municipal curve continued to flatten in December, with the AAA MMD 2-year/10-year slope ending at 50 bps, down from November’s 59 bps. The AAA MMD 2-year/30-year slope also narrowed to 124 bps from November’s 130 bps.

Spot Rates				
	Current 12/28/2018	1 Week Ago 12/21/2018	1 Month Ago 11/30/2018	1 Year Ago 12/28/2017
2-Year	1.78	1.78	1.92	1.56
3-Year	1.81	1.81	2.00	1.60
5-Year	1.94	1.94	2.14	1.68
7-Year	2.07	2.08	2.28	1.78
10-Year	2.28	2.30	2.51	1.98
30-Year	3.02	3.03	3.22	2.54

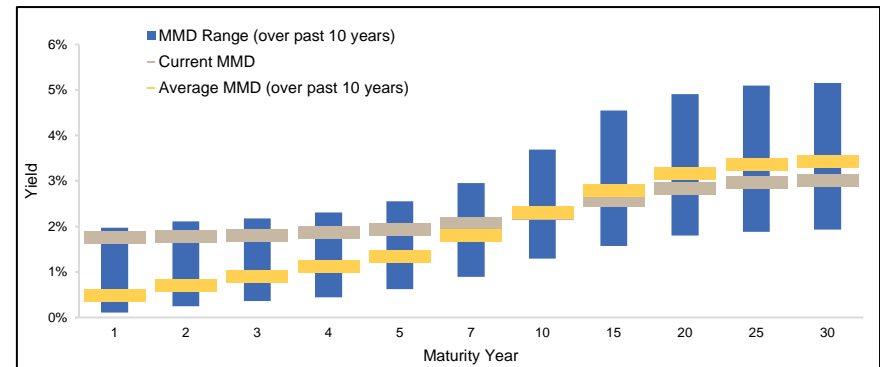
Change in Spot Rate (basis points)			
	1 Week Ago 12/21/2018	1 Month Ago 11/30/2018	1 Year Ago 12/28/2017
2-Year	0	-14	22
3-Year	0	-19	21
5-Year	0	-20	26
7-Year	-1	-21	29
10-Year	-2	-23	30
30-Year	-1	-20	48

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.78%	2.52%	1.72
3-Year	1.81%	2.50%	1.73
5-Year	1.94%	2.56%	1.78
7-Year	2.07%	2.63%	1.89
10-Year	2.28%	2.72%	2.03
30-Year	3.02%	3.02%	2.36

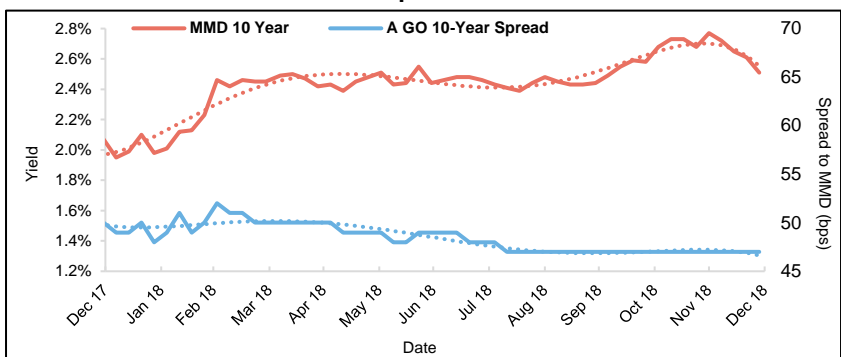
MMD AAA GO Curve



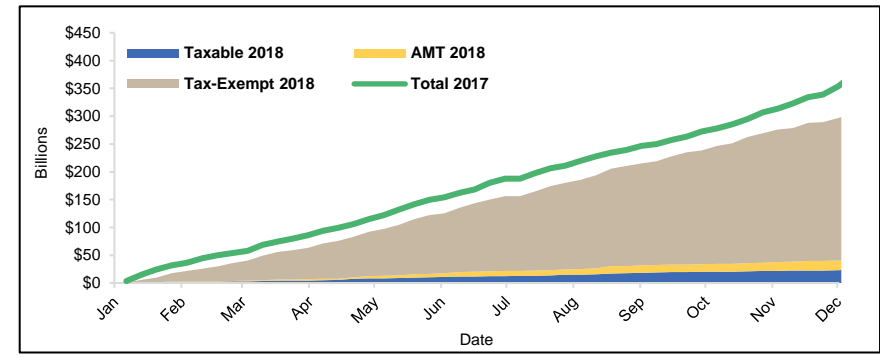
MMD Rates Over Time



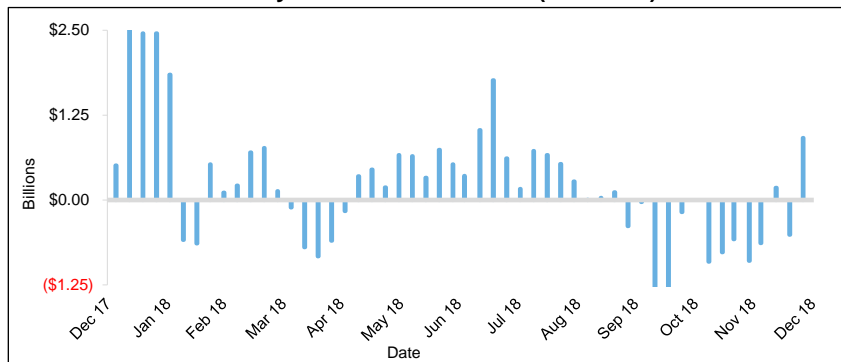
Rate and Spread Movement



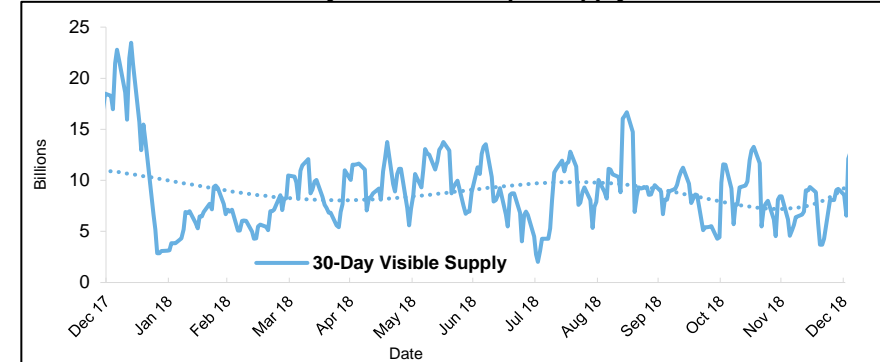
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
01/08/2019	06:00 AM	NFIB Small Business Optimism	01/15/2019	08:30 AM	PPI Ex Food and Energy MoM	01/23/2019	07:00 AM	MBA Mortgage Applications
01/08/2019	08:30 AM	Trade Balance	01/15/2019	08:30 AM	PPI Ex Food, Energy, Trade YoY	01/23/2019	09:00 AM	FHFA House Price Index MoM
01/08/2019	10:00 AM	JOLTS Job Openings	01/16/2019	07:00 AM	MBA Mortgage Applications	01/23/2019	10:00 AM	Richmond Fed Manufact. Index
01/08/2019	03:00 PM	Consumer Credit	01/16/2019	08:30 AM	Retail Sales Advance MoM	01/24/2019	08:30 AM	Initial Jobless Claims
01/09/2019	07:00 AM	MBA Mortgage Applications	01/16/2019	08:30 AM	Retail Sales Ex Auto MoM	01/24/2019	09:45 AM	Markit US Manufacturing PMI
01/09/2019	02:00 PM	FOMC Meeting Minutes	01/16/2019	08:30 AM	Retail Sales Ex Auto and Gas	01/24/2019	09:45 AM	Markit US Services PMI
01/10/2019	08:30 AM	Initial Jobless Claims	01/17/2019	08:30 AM	Philadelphia Fed Business Outlook	01/24/2019	10:00 AM	Leading Index
01/10/2019	08:30 AM	Continuing Claims	01/17/2019	09:45 AM	Bloomberg Consumer Comfort	01/24/2019	11:00 AM	Kansas City Fed Manf. Activity
01/10/2019	08:45 AM	Bloomberg Jan. U.S. Economic Survey	01/17/2019	09:45 AM	Bloomberg Economic Expectations	01/25/2019	08:30 AM	Durable Goods Orders
01/10/2019	09:45 AM	Bloomberg Consumer Comfort	01/18/2019	09:15 AM	Industrial Production MoM	01/25/2019	08:30 AM	Durables Ex Transportation
01/11/2019	08:30 AM	Real Avg Weekly Earnings YoY	01/18/2019	09:15 AM	Manufacturing (SIC) Production	01/29/2019	10:00 AM	Conf. Board Present Situation
01/11/2019	08:30 AM	Real Avg Hourly Earning YoY	01/18/2019	09:15 AM	Capacity Utilization	01/29/2019	10:00 AM	Conf. Board Expectations
01/11/2019	02:00 PM	Monthly Budget Statement	01/18/2019	10:00 AM	U. of Mich. Sentiment	01/30/2019	07:00 AM	MBA Mortgage Applications
01/15/2019	08:30 AM	Empire Manufacturing	01/22/2019	10:00 AM	Existing Home Sales MoM	01/30/2019	08:15 AM	ADP Employment Change
01/15/2019	08:30 AM	PPI Final Demand MoM	01/22/2019	10:00 AM	Existing Home Sales	01/30/2019	08:30 AM	GDP Annualized QoQ

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

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