



Monthly Market Review

The trade war is officially on. Now it's a question of whether the strong fiscal stimulus that is fueling the U.S. economy will be enough to overcome the drag of trade uncertainty until cooler heads prevail.

Economic Highlights

- Federal tax cuts and expanded federal spending accelerated the pace of growth in the second quarter. This was reflected in predictions for robust growth of gross domestic product (GDP). Some forecasters believe GDP will come in at 4% or more after a disappointing 2% in the first quarter.
- Labor market conditions remained positive as the economy added 213,000 jobs in June. The average for the second quarter was 211,000; above the level that is normally required to absorb new entrants into the job market. The unemployment rate ticked slightly higher, from 3.8% to 4.0%, a result of labor force expansion, as increased optimism brought job seekers into the market and the labor force participation rate increased.
- This strength led the Federal Open Market Committee (FOMC) to tighten monetary policy again at its June meeting by increasing the overnight federal funds target rate by a quarter of a percentage point to a new range of 1.75% to 2.00%, even as most FOMC members warned of potential increased risks posed by trade policy.
- On the price front, inflation measures are trending somewhat higher than May's and above the Federal Reserve's (Fed) target of 2%. For example, the year-over-year (YoY) increase in the personal consumption expenditure (PCE) price index, a favored Fed measure, rose in May by 2.3%. The strong job market and inflation above the minimum desired by the Fed, along with the potential for trade policies to boost prices further, could lead the Fed to raise the overnight rate higher in coming months.

Bond Markets

- Despite a rise in the federal funds rate, long-term Treasury yields declined in June, with the 30-year bond ending the month at a yield of 2.99%, down four basis points (bps) (0.04%). Meanwhile, maturities in the one- to five-year range increased by four to 10 bps, furthering the trend toward a flat yield curve.
- As a result, both short- and long-term indices outperformed their intermediate maturity counterparts. For example, the six-month Treasury index returned 0.16% for the month and the 30-year Treasury index returned 0.29%, while the one- to five-year Treasury index returned -0.01% for the month.

- Investment grade credit spreads widened through June, largely on global trade tensions, European uncertainty and weaker demand. Although the corporate sector now offers the most incremental income when compared with government securities for more than a year, the spread widening generally resulted in corporate bonds underperforming comparable duration Treasuries on a total return basis.

Municipal Bond Market

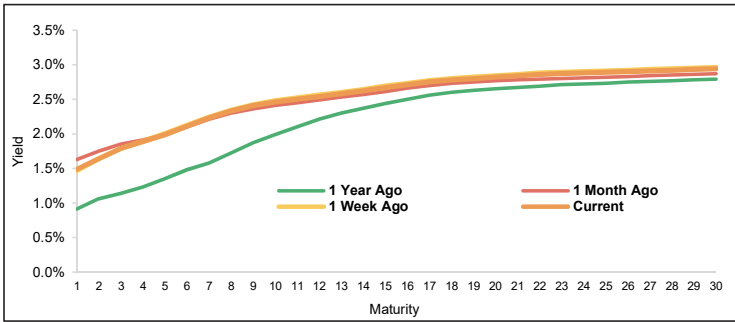
- Municipal new issuance slowed in June, with municipal bond sales dropping 17.8% to \$32.3 billion from \$39.3 billion the same month last year. Year-to-date (YTD) municipal issuance is down 19.4% to \$162 billion in the first half of 2018 from \$201 billion during the same period last year, according to the Municipal Market Monitor (TM3) data.
- June brought positive bond flows throughout the month, with inflows totaling \$2.2 billion, following May's net inflows of \$1.3 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index curve experienced falling rates across the short end and rising rates along the long end of the curve in June. The one-year rate declined 14 bps to 1.49%, while the three-year rate dropped six bps to 1.79%. The five-year rate was steady at 1.99%. The 10-year rate rose five bps to 2.46%, and on the long end, the 30-year rate climbed seven bps to 2.94%, 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 48 and 18 bps, respectively, according to TM3 data.
- In June, Municipal/Treasury ratios decreased in the short term and increased in the long term. The two-year ratio fell to 64.8% from 72.9% in May, and the five-year ratio declined to 72.9% from 74.3% last month. The intermediate-term ratio decreased to 79.1% from 79.5% in May, while the 10-year ratio increased to 86.3% from 85.2% last month. The 30-year ratio climbed to 98.3% from 95.7% last month, according to TM3 data.
- The Municipal curve saw steepening in June, with the AAA MMD two- through 10-year slope ending at 82 bps, wider than last month's 66 bps. The slope between the AAA MMD two- through 30-year widened to 130 bps from May's 112 bps.

Spot Rates				
	Current 6/29/2018	1 Week Ago 6/22/2018	1 Month Ago 5/31/2018	1 Year Ago 6/30/2017
2-Year	1.64	1.64	1.75	1.06
3-Year	1.79	1.79	1.85	1.14
5-Year	1.99	2.00	1.99	1.35
7-Year	2.23	2.24	2.21	1.58
10-Year	2.46	2.48	2.41	1.99
30-Year	2.94	2.96	2.87	2.79

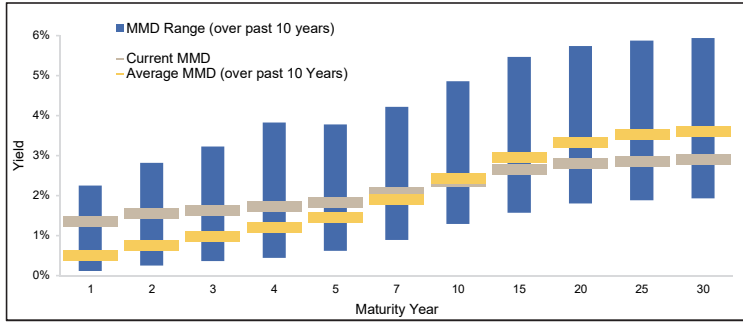
Change in Spot Rate (basis points)			
	1 Week Ago 6/22/2018	1 Month Ago 5/31/2018	1 Year Ago 6/30/2017
2-Year	0	-11	58
3-Year	0	-6	65
5-Year	-1	0	64
7-Year	-1	2	65
10-Year	-2	5	47
30-Year	-2	7	15

Market Rates			
Term	MMD AAA G.O.	U.S. Treasury	Muni Swap Rate
2-Year	1.64%	2.53%	1.81
3-Year	1.79%	2.62%	1.90
5-Year	1.99%	2.74%	2.01
7-Year	2.23%	2.82%	2.09
10-Year	2.46%	2.86%	2.18
30-Year	2.94%	2.99%	2.38

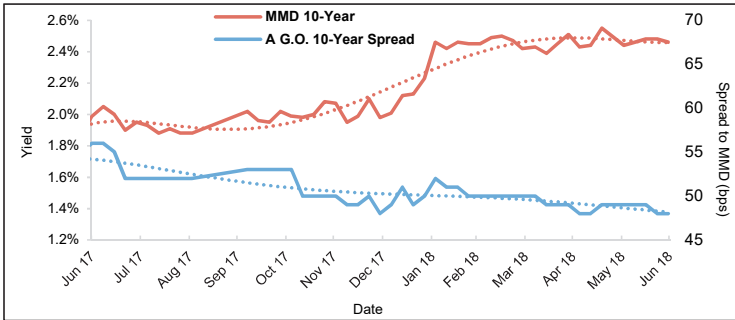
MMD AAA G.O. Curve



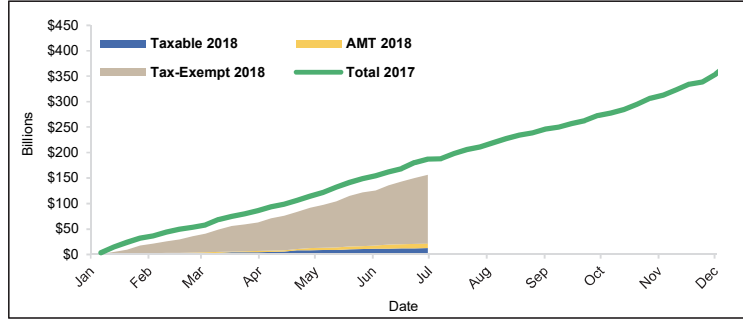
MMD Rates Over Time



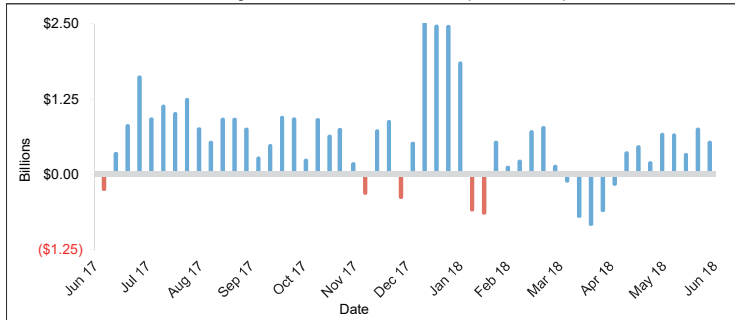
Rate and Spread Movement



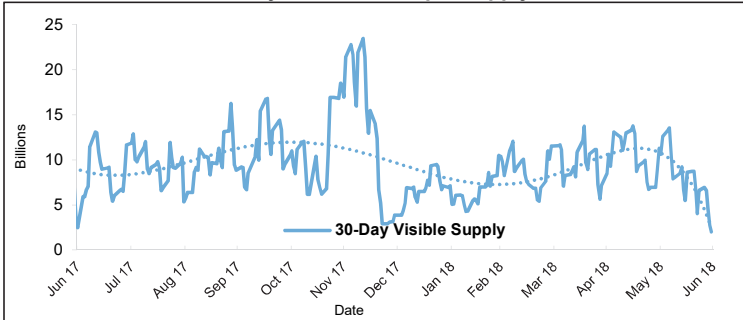
2018 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
07/16/18	08:30 AM	Retail Sales Advance MoM	07/19/18	10:00 AM	Leading Index	07/26/18	09:45 AM	Bloomberg Consumer Comfort
07/16/18	08:30 AM	Empire Manufacturing	07/23/18	08:30 AM	Chicago Fed Nat Activity Index	07/26/18	11:00 AM	Kansas City Fed Manf. Activity
07/16/18	10:00 AM	Business Inventories	07/23/18	10:00 AM	Existing Home Sales	07/27/18	08:30 AM	Revisions: GDP
07/17/18	09:15 AM	Industrial Production MoM	07/24/18	09:00 AM	FHFA House Price Index MoM	07/27/18	08:30 AM	GDP Annualized QoQ
07/17/18	09:15 AM	Capacity Utilization	07/24/18	09:45 AM	Markit US Manufacturing PMI	07/27/18	08:30 AM	Personal Consumption
07/17/18	10:00 AM	NAHB Housing Market Index	07/24/18	09:45 AM	Markit US Services PMI	07/27/18	08:30 AM	GDP Price Index
07/17/18	04:00 PM	Total Net TIC Flows	07/24/18	10:00 AM	Richmond Fed Manufact. Index	07/27/18	08:30 AM	Core PCE QoQ
07/18/18	07:00 AM	MBA Mortgage Applications	07/25/18	07:00 AM	MBA Mortgage Applications	07/27/18	10:00 AM	U. of Mich. Current Conditions
07/18/18	08:30 AM	Housing Starts	07/25/18	10:00 AM	New Home Sales	07/30/18	10:00 AM	Pending Home Sales MoM
07/18/18	08:30 AM	Building Permits	07/26/18	08:30 AM	Advance Goods Trade Balance	07/30/18	10:30 AM	Dallas Fed Manf. Activity
07/18/18	02:00 PM	U.S. Federal Reserve Releases Beige Book	07/26/18	08:30 AM	Initial Jobless Claims	07/31/18	08:30 AM	Employment Cost Index
07/19/18	08:30 AM	Initial Jobless Claims	07/26/18	08:30 AM	Wholesale Inventories MoM	07/31/18	08:30 AM	Personal Income
07/19/18	08:30 AM	Continuing Claims	07/26/18	08:30 AM	Continuing Claims	07/31/18	08:30 AM	PCE Deflator YoY
07/19/18	08:30 AM	Philadelphia Fed Business Outlook	07/26/18	08:30 AM	Retail Inventories MoM	07/31/18	09:00 AM	S&P CoreLogic CS 20-City YoY NSA
07/19/18	09:45 AM	Bloomberg Economic Expectations	07/26/18	08:30 AM	Durable Goods Orders	07/31/18	10:00 AM	Conf. Board Consumer Confidence

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

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