



Monthly Market Review

“Are we in the eye of the storm or has it already passed?”

Economic Highlights

- Following the widespread market volatility late last year, 2019 year-to-date is much rosier: equity markets have rebounded strongly across the board; volatility is back to normal for stocks and bonds and fixed income credit spreads have returned to last October’s levels.
- Federal Reserve (Fed) Chair Jay Powell did his part to calm the markets. He commented in recent statements that the Fed will employ a “wait and see” approach, stressing patience on rate guidance. Others may see the return to stability as a parallel to the Federal government’s return to stability after Congress and President Trump agreed to a funding plan in advance of the February 15 expiration of stopgap spending authority. In any event, the wild ride of fourth quarter 2018 is in the rearview mirror, at least for now.
- Fourth quarter 2018 U.S. Gross Domestic Product (GDP) surprised to the upside in registering a preliminary reading of 2.6%, but a decline from the stronger pace of the prior two quarters.
- While the outlook for domestic growth is moderate, headwinds loom across the pond as political uncertainties, slowing trade and growing debt burdens have raised risks in Europe and globally. In its latest update, the Organization for Economic Cooperation and Development downgraded their global growth forecast.
- The employment report for February was truly a mixed bag. The economy added only 20,000 new jobs, far below estimates, but the unemployment rate fell back to 3.8%. At the same time, wages rose 3.4% over the past year, the strongest reading of the recovery.
- The U.S. housing market remains weak. Although mortgage rates have declined of late, existing home sales fell to the weakest pace in more than three years. The weakness in sales translated into slowing growth for home prices, as prices in the 20 largest U.S. cities increased in December at the slowest pace since late 2012.
- After cruising to multi-year highs, consumer confidence and sentiment indices dipped, largely the result of government shutdown effects. Both indices reversed course in February, however, on the heels of the strong equity market rebound and a funding agreement that reopened the U.S. government.

Bond Markets

- U.S. Treasury yields have remained within a narrow range so far in 2019. In February, the curve steepened slightly, bucking a three-month flattening trend. While yields on maturities less than two years generally increased three to five basis points (bps) over the month, the longer end of the curve (maturities greater than five years) increased by seven to 10 bps.

- As a result, most fixed income maturities and sectors produced modest positive returns for the year to date (YTD). In general, returns for Treasuries of any specific duration were bested by comparable sectors like corporate bonds that provide incremental income.

Municipal Bond Market

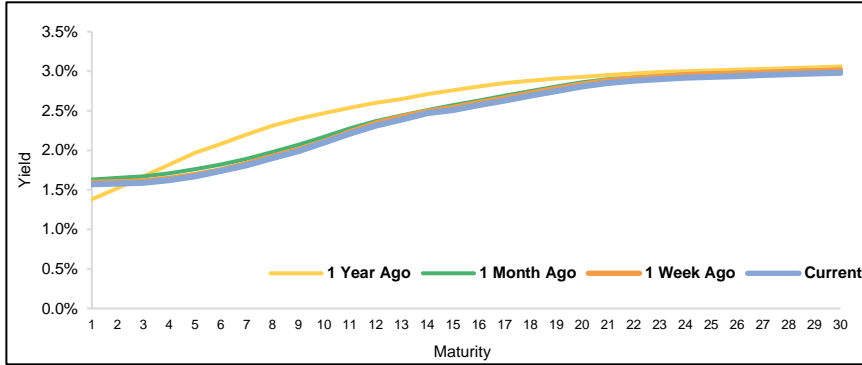
- Municipal new issuance increased in February by 37.2% to \$24.7 billion from \$18 billion the same month last year. YTD municipal new issuance is up 24.8% to \$49.3 billion for 2019 from \$39.5 billion during the same period last year, according to Municipal Market Monitor (TM3) data.
- February experienced positive bond flows throughout the month and ended with net inflows totaling \$11 billion, following January’s net inflows of \$7.6 billion, according to Investment Company Institute (ICI) data.
- The Municipal Market Data (MMD) Index experienced declining rates across the yield curve in February. The one-year rate decreased six bps to 1.57%, while the three-year rate dropped eight bps to 1.59%. The five-year rate fell nine bps to 1.67%, and the 10-year rate declined seven bps to 2.10%. On the long end, the 30-year rate dropped four bps to 2.98%, according to TM3 data.
- The 10-year MMD Single-A General Obligation (GO) Index credit spread fell by four bps to 44 bps while the Double-A GO Index credit spread remained at 16 bps, according to TM3 data.
- In February, Municipal-to-Treasury ratios decreased across the entire yield curve. The two-year ratio dipped to 62.7% from 67.2% in January, and the five-year ratio dropped to 66.3% from 72.5%. The intermediate-term ratio declined to 69.0% from 75.4%, while the 10-year ratio fell to 77.2% from 82.2%. The 30-year ratio ebbed to 96.4% from 100.7%, according to TM3 data.
- The Municipal curve experienced a slight widening at the long-end in February, with the AAA MMD 2-year/10-year slope remaining unchanged at 52 bps and the AAA MMD 2-year/30-year slope increasing to 140 bps from January’s 137 bps.

Spot Rates				
	Current 2/28/2019	1 Week Ago 2/21/2019	1 Month Ago 1/31/2019	1 Year Ago 2/28/2018
2-Year	1.58	1.60	1.65	1.52
3-Year	1.59	1.61	1.67	1.67
5-Year	1.67	1.69	1.76	1.97
7-Year	1.81	1.83	1.89	2.20
10-Year	2.10	2.11	2.17	2.47
30-Year	2.98	3.01	3.02	3.06

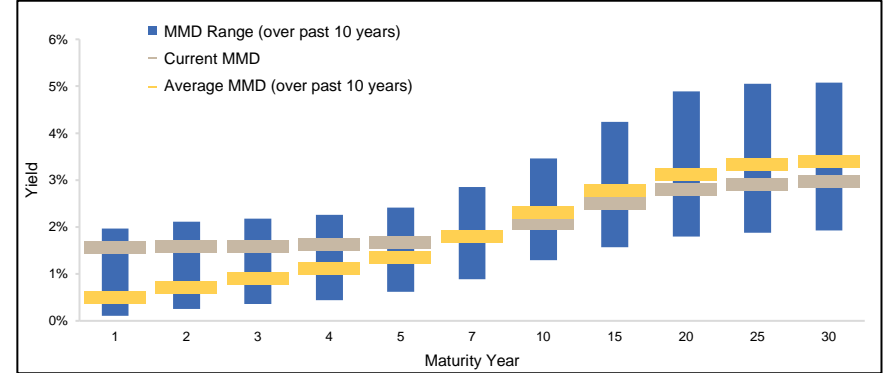
Change in Spot Rate (basis points)			
	1 Week Ago 2/21/2019	1 Month Ago 1/31/2019	1 Year Ago 2/28/2018
2-Year	-2	-7	6
3-Year	-2	-8	-8
5-Year	-2	-9	-30
7-Year	-2	-8	-39
10-Year	-1	-7	-37
30-Year	-3	-4	-8

Market Rates			
Term	MMD AAA GO	U.S. Treasury	Muni Swap Rate
2-Year	1.58%	2.52%	1.71
3-Year	1.59%	2.50%	1.72
5-Year	1.67%	2.51%	1.79
7-Year	1.81%	2.62%	1.89
10-Year	2.10%	2.72%	2.03
30-Year	2.98%	3.08%	2.40

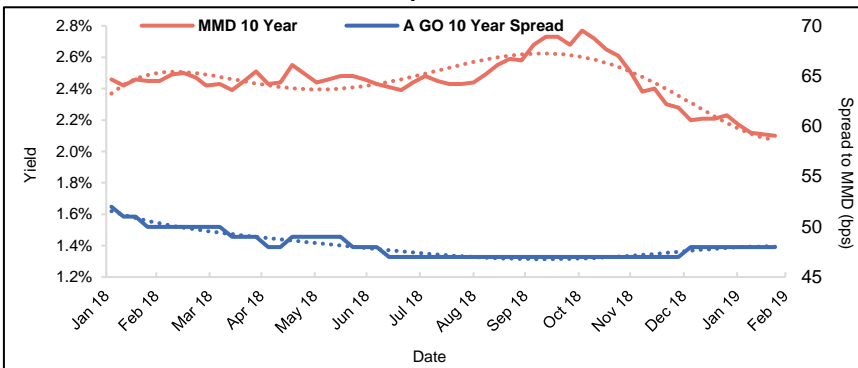
MMD AAA GO Curve



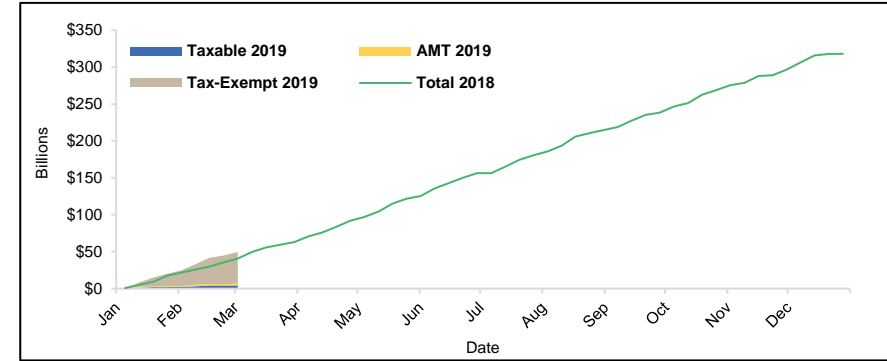
MMD Rates Over Time



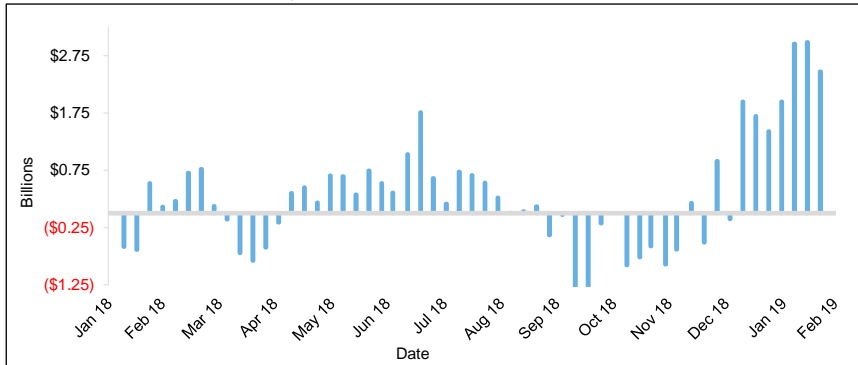
Rate and Spread Movement



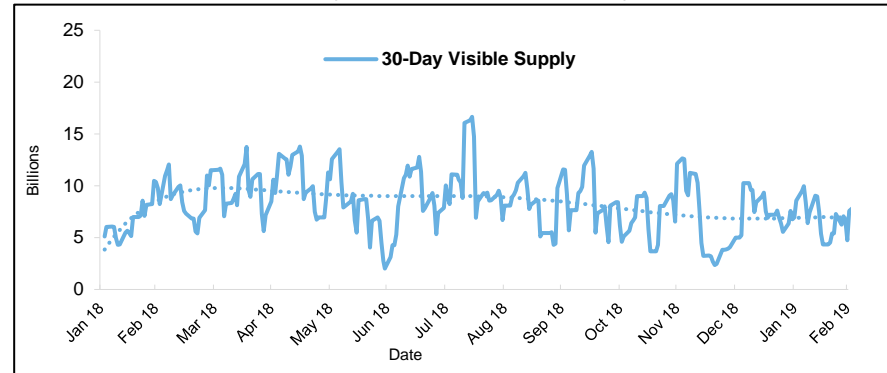
2019 Cumulative Issuance



Weekly Mutual Fund Inflows (Outflows)



30-Day Visible Municipal Supply



Economic Calendar

Date	Time	Statistic	Date	Time	Statistic	Date	Time	Statistic
03/07/2019	03:00 PM	Consumer Credit	03/11/2019	08:30 AM	Retail Sales Ex Auto and Gas	03/21/2019	09:45 AM	Bloomberg Economic Expectations
03/08/2019	03:00 PM	Housing Starts	03/11/2019	08:30 AM	Retail Sales Advance MoM	03/21/2019	10:00 AM	Leading Index
03/08/2019	08:30 AM	Housing Starts MoM	03/11/2019	10:00 AM	Business Inventories	03/22/2019	09:45 AM	Markit US Manufacturing PMI
03/08/2019	08:30 AM	Building Permits	03/12/2019	06:00 AM	NFIB Small Business Optimism	03/22/2019	09:45 AM	Markit US Services PMI
03/08/2019	08:30 AM	Building Permits MoM	03/12/2019	08:30 AM	CPI MoM	03/22/2019	09:45 AM	Markit US Composite PMI
03/08/2019	08:30 AM	Change in Nonfarm Payrolls	03/12/2019	08:30 AM	CPI Ex Food and Energy MoM	03/22/2019	10:00 AM	Wholesale Inventories MoM
03/08/2019	02:00 PM	Underemployment Rate	03/12/2019	08:30 AM	CPI YoY	03/22/2019	10:00 AM	Existing Home Sales
03/11/2019	08:30 AM	Retail Sales Ex Auto and Gas	03/12/2019	08:30 AM	CPI Ex Food and Energy YoY	03/25/2019	10:30 AM	Dallas Fed Manf. Activity
03/11/2019	08:30 AM	Retail Sales Advance MoM	03/12/2019	08:30 AM	CPI Core Index SA	03/26/2019	08:30 AM	Housing Starts
03/11/2019	10:00 AM	Business Inventories	03/13/2019	07:00 AM	MBA Mortgage Applications	03/26/2019	08:30 AM	Housing Starts MoM
03/12/2019	06:00 AM	NFIB Small Business Optimism	03/13/2019	08:30 AM	PPI Final Demand MoM	03/27/2019	08:30 AM	Trade Balance
03/12/2019	08:30 AM	CPI MoM	03/13/2019	08:30 AM	PPI Ex Food and Energy MoM	03/27/2019	10:00 AM	Current Account Balance
03/12/2019	08:30 AM	CPI Ex Food and Energy MoM	03/13/2019	08:30 AM	PPI Ex Food, Energy, Trade MoM	03/28/2019	08:30 AM	GDP Annualized QoQ
03/12/2019	08:30 AM	CPI YoY	03/13/2019	08:30 AM	PPI Final Demand YoY	03/28/2019	08:30 AM	Personal Consumption
03/12/2019	08:30 AM	CPI Ex Food and Energy YoY	03/13/2019	08:30 AM	Durable Goods Orders	03/29/2019	08:30 AM	Real Personal Spending

Sources: Bloomberg, Thomson Reuters and ICI. Unless otherwise noted, all data is presented as of February 28, 2019.

The views expressed constitute the perspective of PFM's financial advisory business at the time of distribution and are subject to change. The content is based on sources generally believed to be reliable and available to the public; however, PFM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. Financial advisory services are provided by PFM Financial Advisors LLC and Public Financial Management, Inc. Both are registered municipal advisors with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) under the Dodd-Frank Act of 2010. For more information regarding PFM's services or entities, please visit www.pfm.com.

