



Fixed Income Monthly Market Update

March 2019

PFM Asset
Management LLC

213 Market Street
Harrisburg, PA 17101

717.232.2723
pfm.com

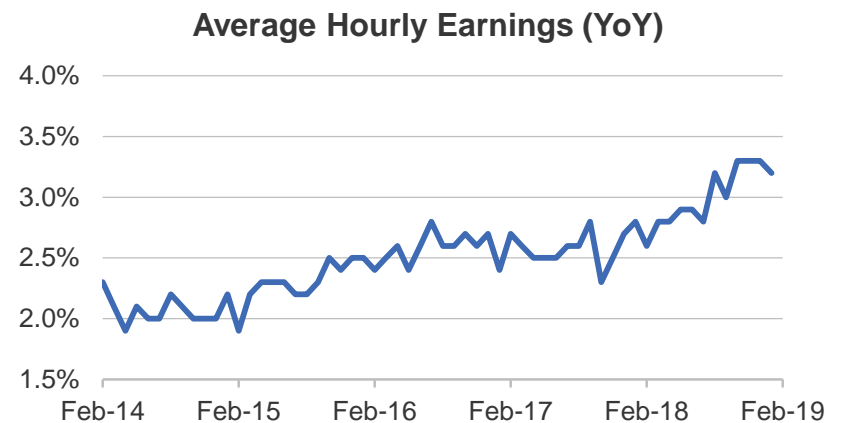
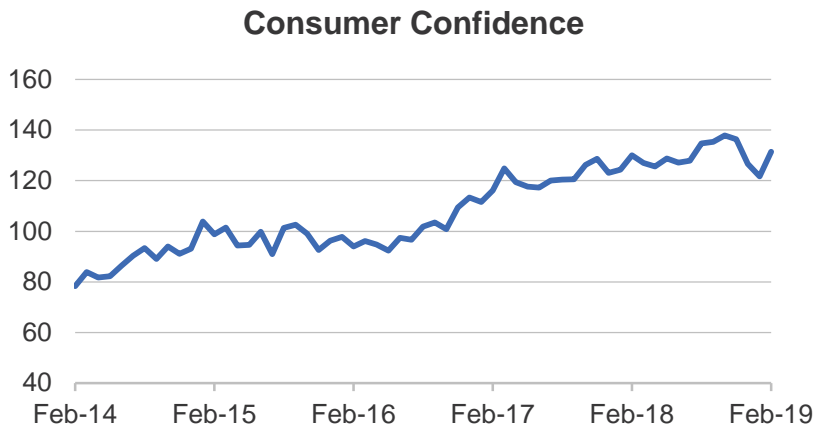
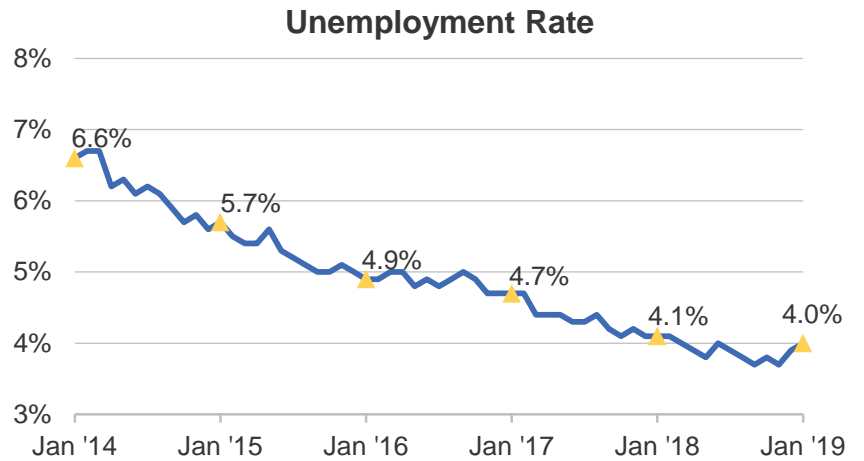
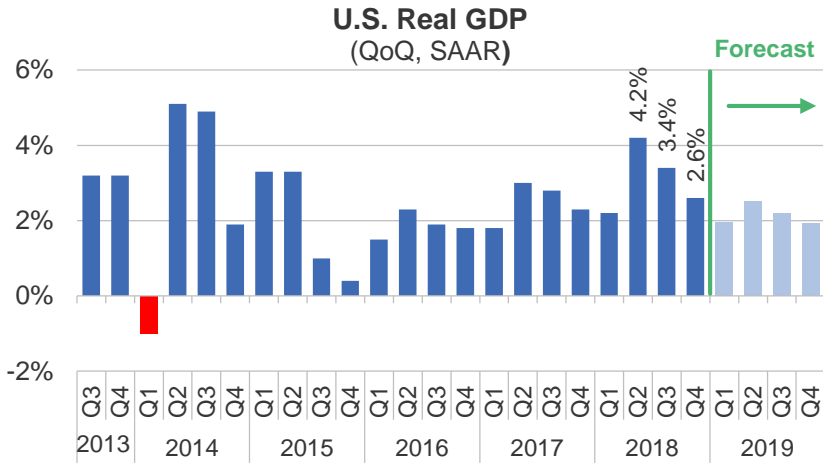


Current Market Themes

- U.S. economic conditions are characterized by:
 - Moderating GDP growth as the impact of the 2018 tax cuts and increased federal government spending wane
 - Solid job growth with a low unemployment rate of 3.8%
 - Strong trailing corporate profits
 - Decelerating business activity
- The U.S. Treasury yield curve continues to be inverted between 2- and 5-year maturities. Yields have been range-bound, bouncing between small gains and declines since the Fed signaled it would be “patient” with raising rates. The yield on the 2-year Treasury, which is highly sensitive to changes in monetary policy, has remained stuck at around 2.50%, while the 10-year yield has mostly drifted between 2.60% and 2.70%.
- U.S. GDP grew at an annualized rate of 2.6% in Q4, exceeding expectations. Consumer spending remained supportive, despite the sharp decline in the reported retail sales figure for December. Business investment was also a positive surprise, but residential housing investment was weak, falling for the fourth straight quarter.
- Following a strong start to the year, U.S. equities continued their ascent in February. The S&P 500 and Dow are now up 11.1% for the year, while the Nasdaq is up 13.5%. American consumer confidence rebounded in February on the heels of the equity market recovery and the end to the partial government shutdown.
- Geopolitical risks and global growth weakness continue to weigh on the future prospects for the markets.



Current U.S. Economic Conditions Are Pretty Good

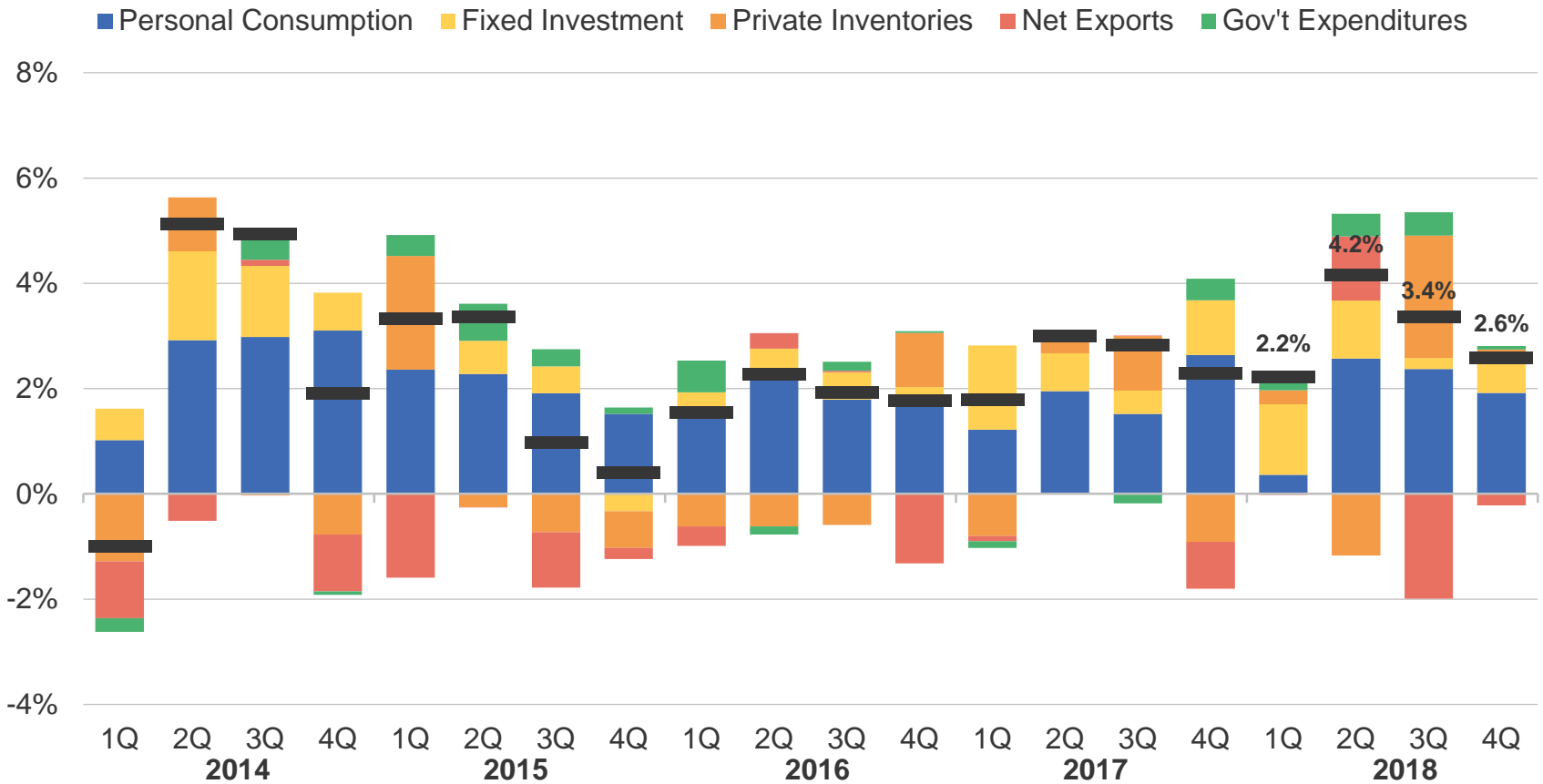


Source: Bloomberg, latest data available as of 2/28/19. SAAR is seasonally adjusted annualized rate.



The American Consumer Continues to Drive GDP Growth

U.S. GDP Contributors and Detractors

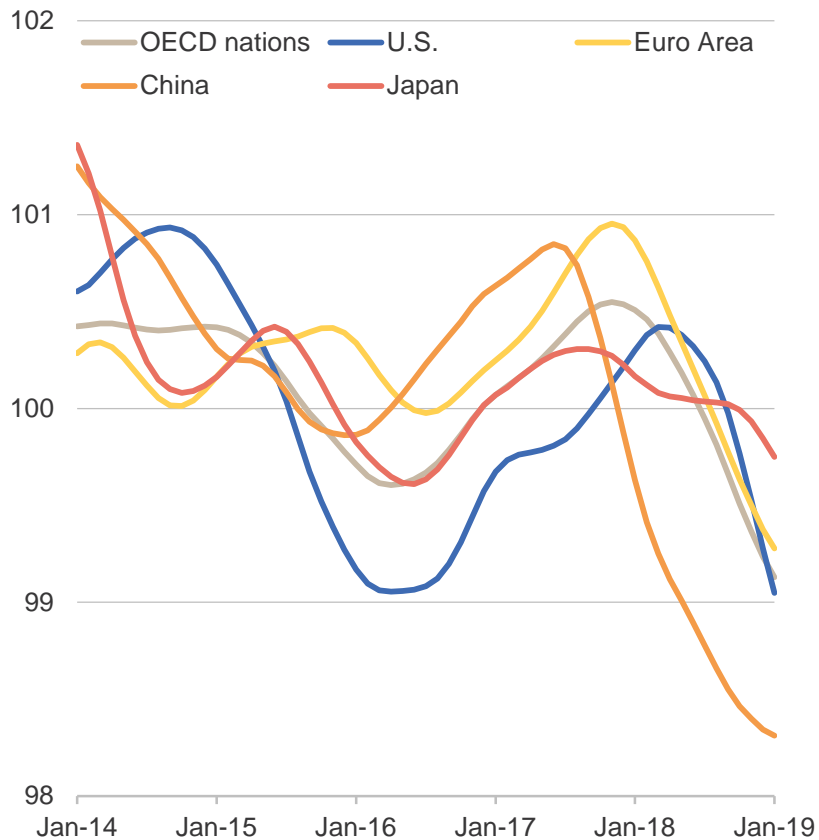


Source: Bureau of Economic Analysis, as of March 2019. 4th quarter contributions are based on the second GDP growth estimate.



But Global Economic Growth is Losing Momentum

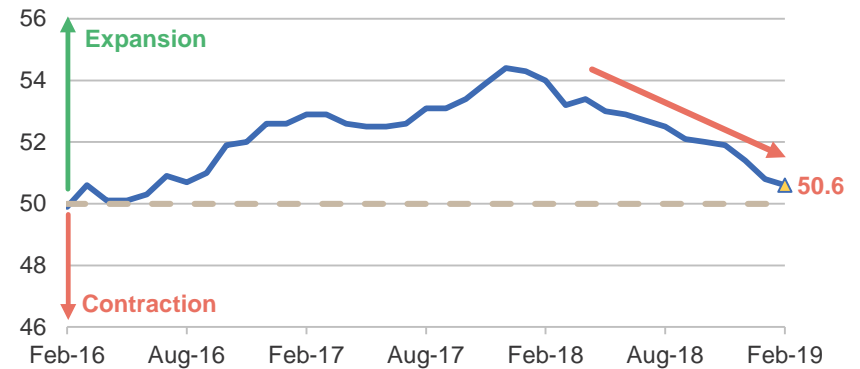
OECD Leading Indicator



IMF Global Growth Forecast

	2017	2018*	2019*	2020*
World Output	3.8	3.7	3.5	3.6
United States	2.2	2.9	2.5	1.8
China	6.9	6.6	6.2	6.2
Japan	1.9	0.9	1.1	0.5
Euro Area	2.4	1.8	1.6	1.7
Germany	2.5	1.5	1.3	1.6
France	2.3	1.5	1.5	1.6
UK	1.8	1.4	1.5	1.6

Global Market PMI



Source: Bloomberg. *Estimates and forecasts are from the IMF's World Economic Outlook January 2019 Update.



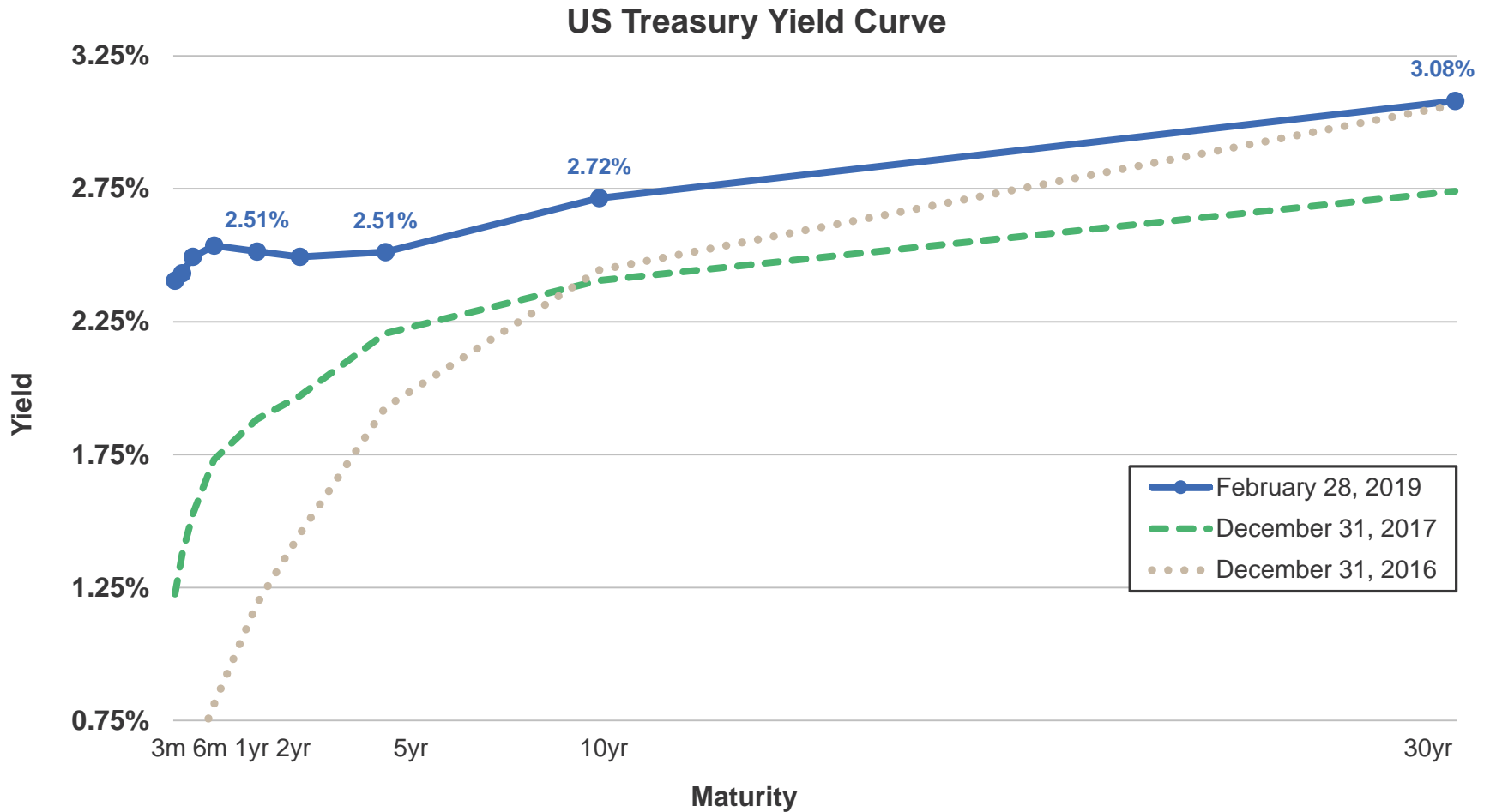
Fed Shifted to Neutral in January

- ◆ Job gains have been strong... and the unemployment rate has remained low.
 - ◆ Growth of business fixed investment has moderated.
 - ◆ In light of global economic and financial developments and muted inflation pressures, the Committee ***will be patient*** as it determines what future adjustments to the target range for the federal funds rate may be appropriate.
 - ◆ The Committee will assess realized and expected economic conditions. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and ***readings on financial and international developments.***
- **Implication: No more rate hikes for a while; possibly, the Fed is done raising rates.**

Source: FOMC Statement 1/30/2019



U.S. Treasury Yield Curve Inverted in 1-5 Year Maturities



Source: Bloomberg, as of 02/28/19.



Yields Plunge in Q4; Now Range-Bound Amid Dovish Fed Sentiment

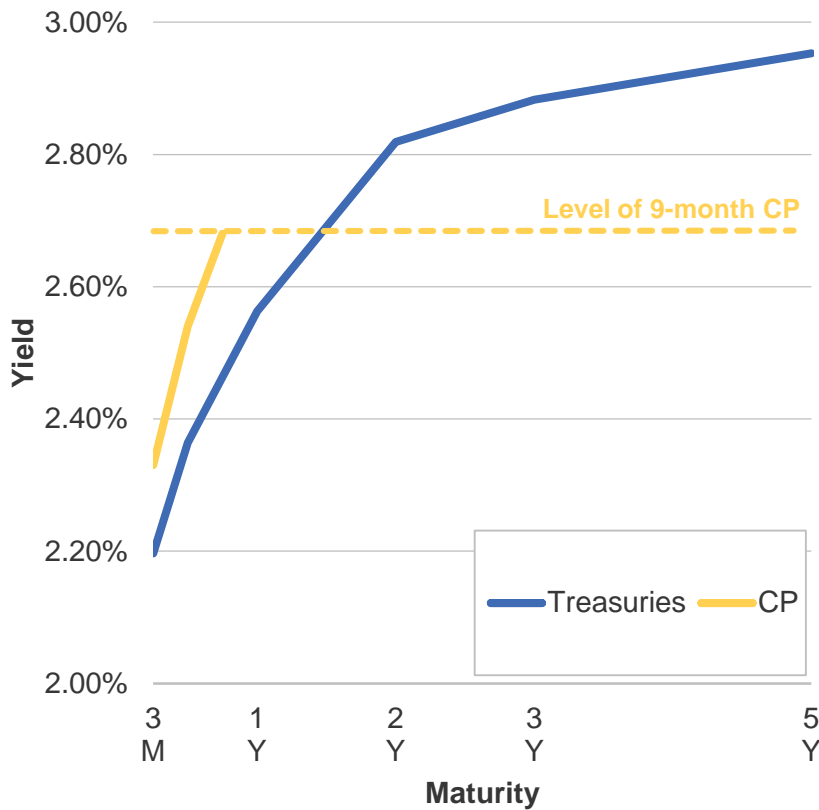


Source: Bloomberg, as of 02/28/19.

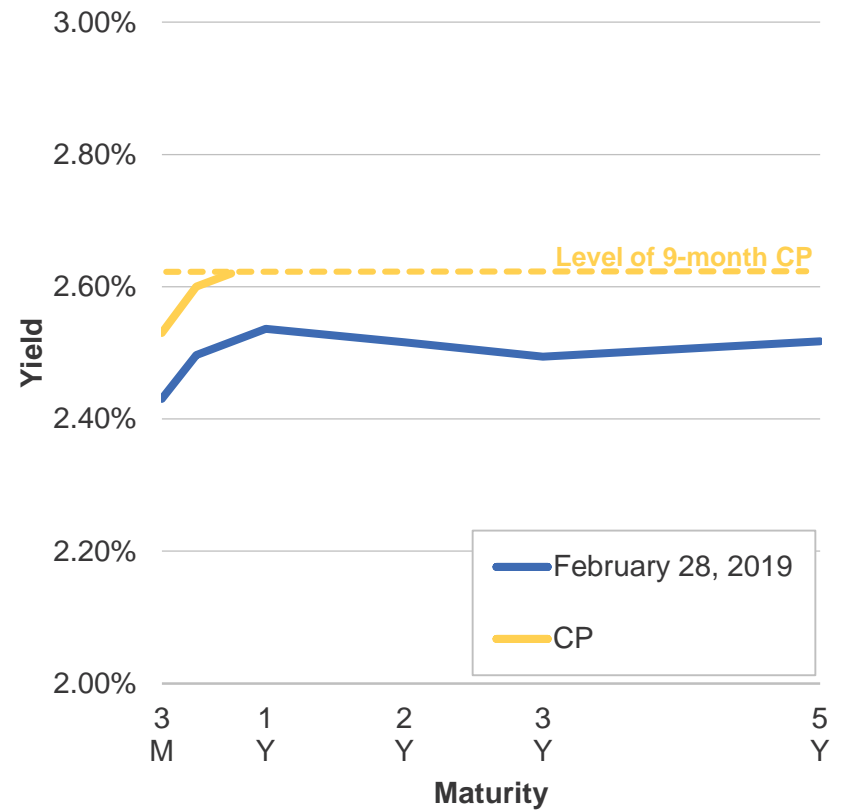


Commercial Paper Out-Yields Longer Treasuries

Yield Curve
September 28, 2018



Yield Curve
February 28, 2019

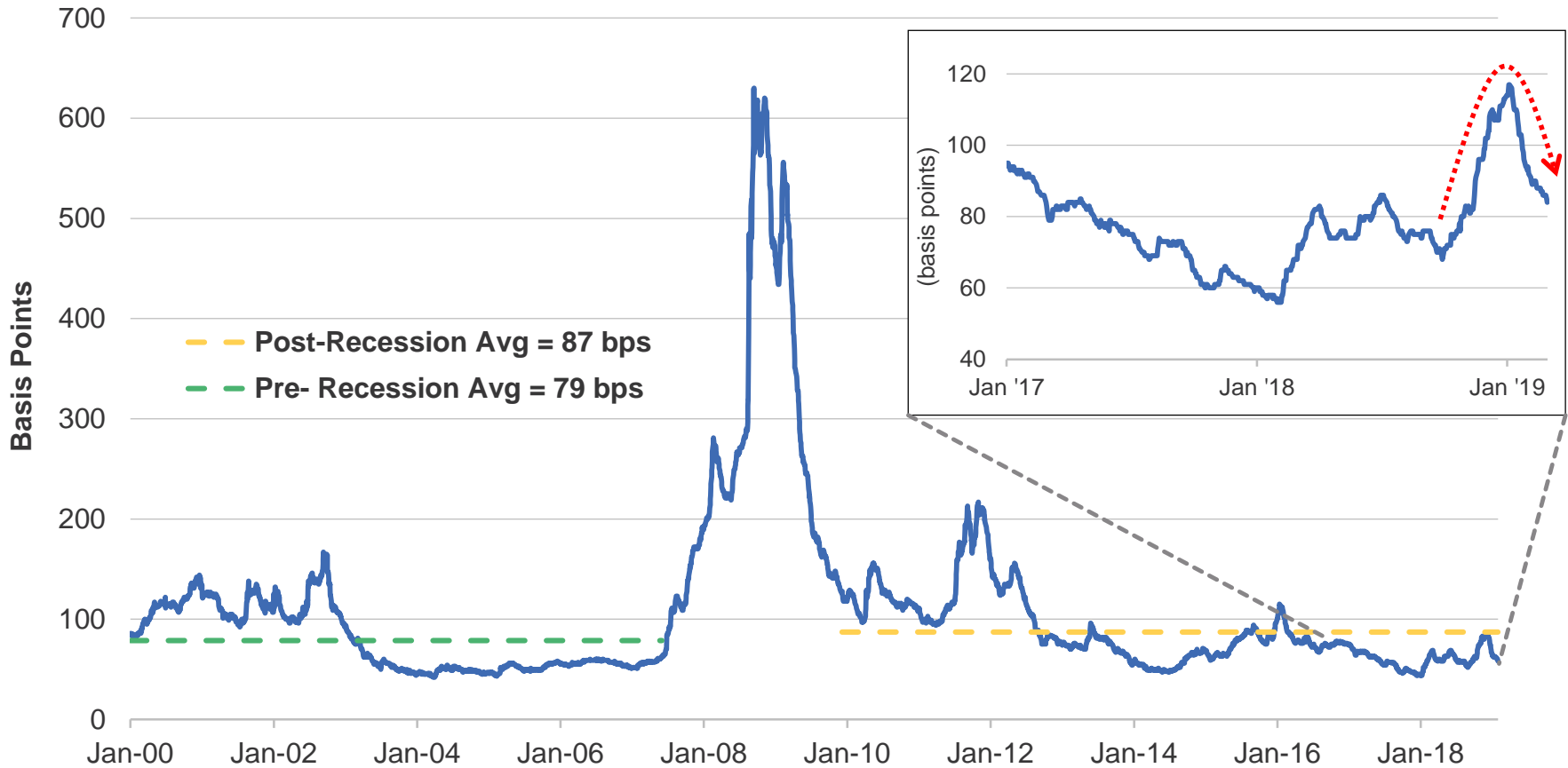


Source: Bloomberg, as of 2/28/2019. Yields are for indicative purposes only; actual yields will vary by issue.



Corporate Credit Spreads Close to Historical Averages

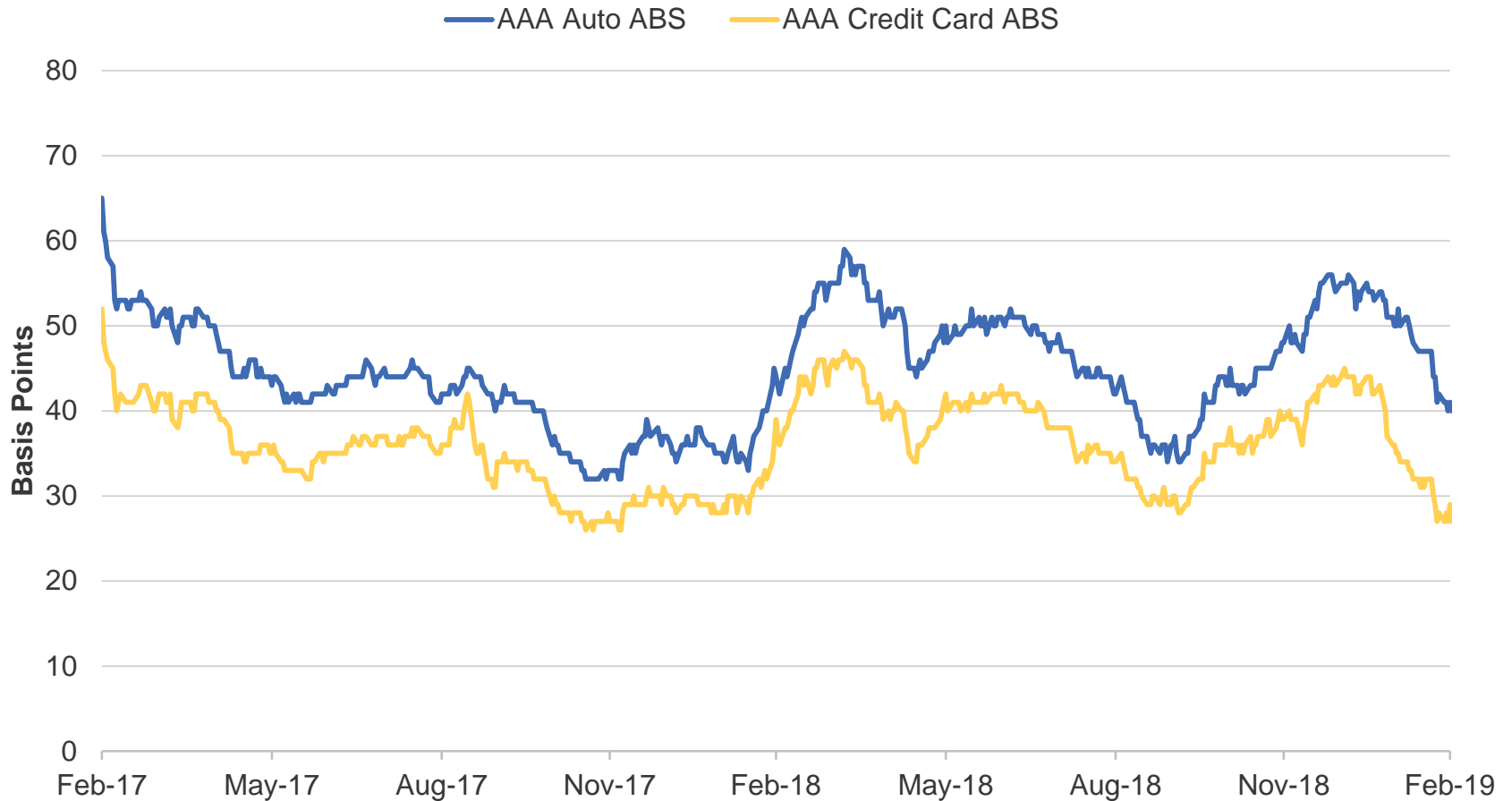
Yield Spread (OAS) of 1-5 Year A-AAA Corporate Index



Source: Bloomberg, ICE BofAML Indices. OAS is option adjusted spread. As of 02/28/19.



Asset-Backed Securities Present an Attractive Source of Relative Value



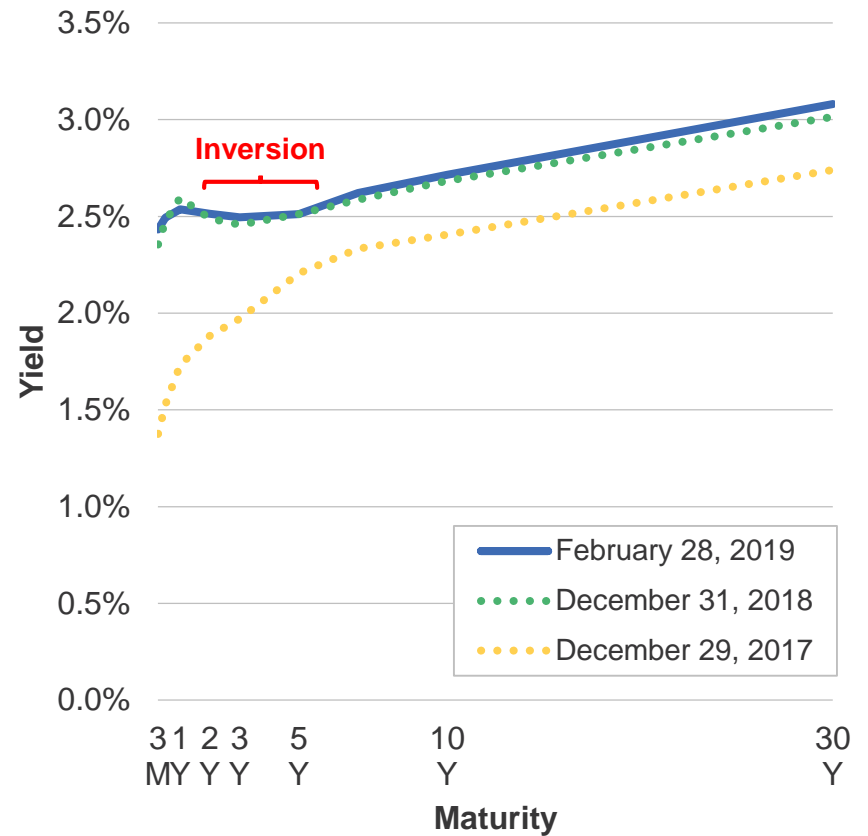
Source: Bloomberg, ICE BofAML Indices. OAS is option adjusted spread. As of 03/01/19.



U.S. Treasury Yield Curve Partial Inversion Ongoing

Tenor	02/28/19	Year-End 12/31/18	Year-End 12/29/2017
3 month	2.43%	2.35%	1.38%
1 year	2.54%	2.60%	1.73%
2 year	2.51%	2.49%	1.88%
3 year	2.49%	2.46%	1.97%
5 year	2.51%	2.51%	2.21%
10 year	2.72%	2.68%	2.41%
30 year	3.08%	3.01%	3.74%

U.S. Treasury Yield Curve

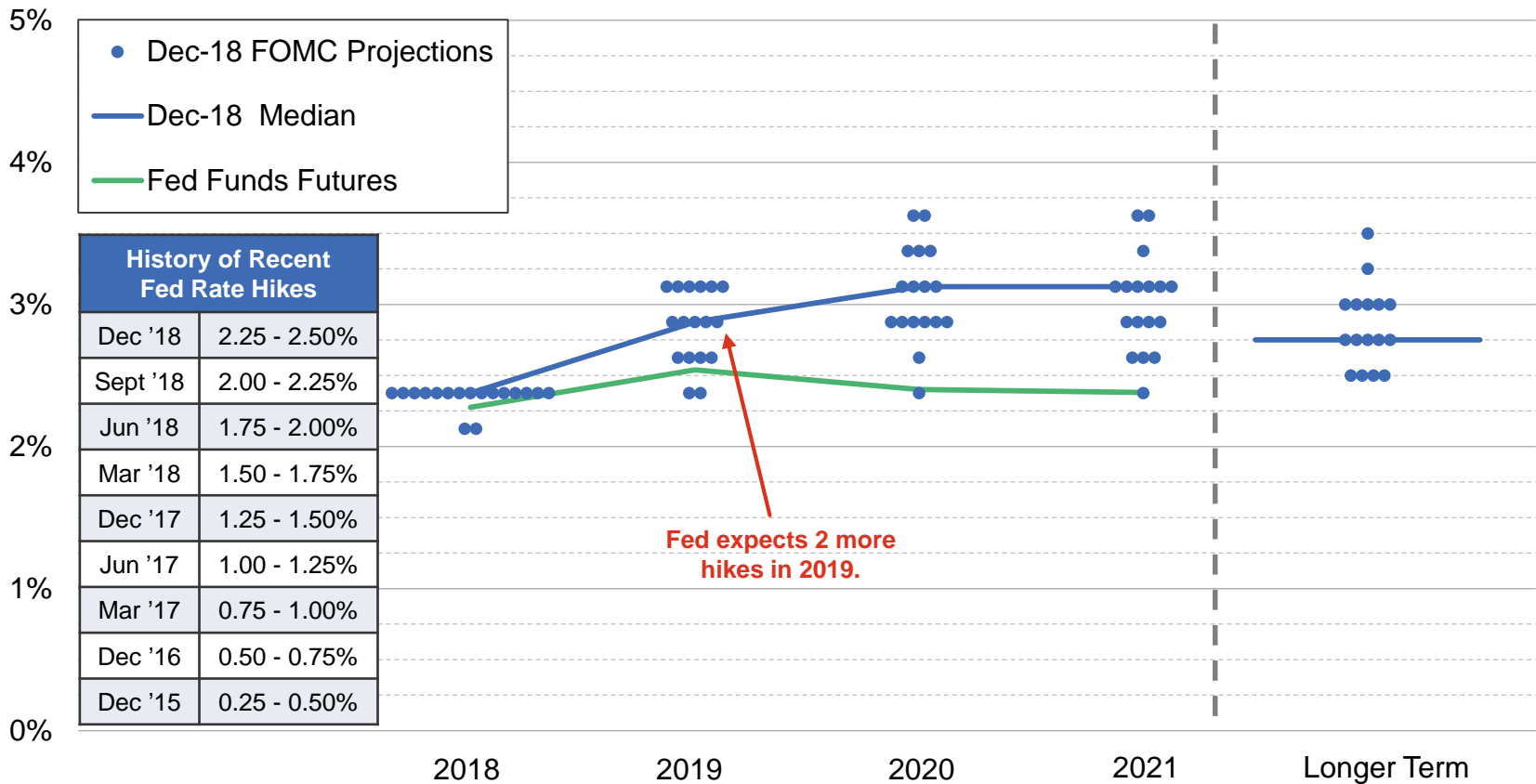


Source: Bloomberg, as of 02/28/19.



FOMC's December "Dot Plot" Lowers Expectation For 2019

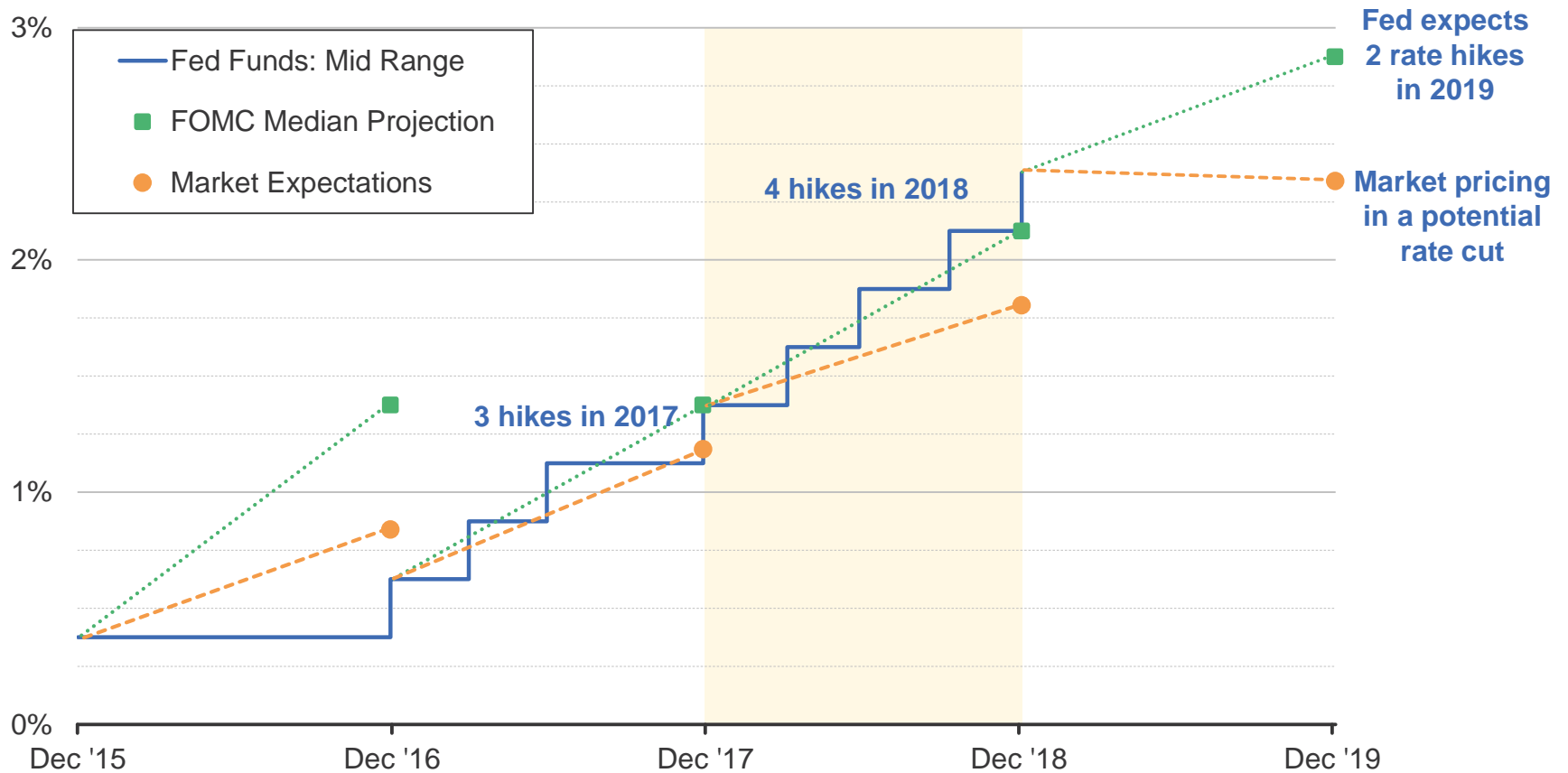
Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 12/19/18.



Fed Had Previously Lowered Rate Hike Expectations for 2019



Source: Fed expectations from Federal Reserve dot plot as of December 19, 2018. Market expectations as measured by Fed Funds futures as of January 4, 2019.



Credit Spreads Narrow and Remain Low by Historical Standards

Yield Spread (OAS) of 1-5 Year Investment Grade Corporate Index



Yield Spread (OAS) of 0-5 Year AAA Asset-Backed Securities Index



Source: Bloomberg, ICE BofAML Indices. OAS is option adjusted spread. As of 02/28/19.

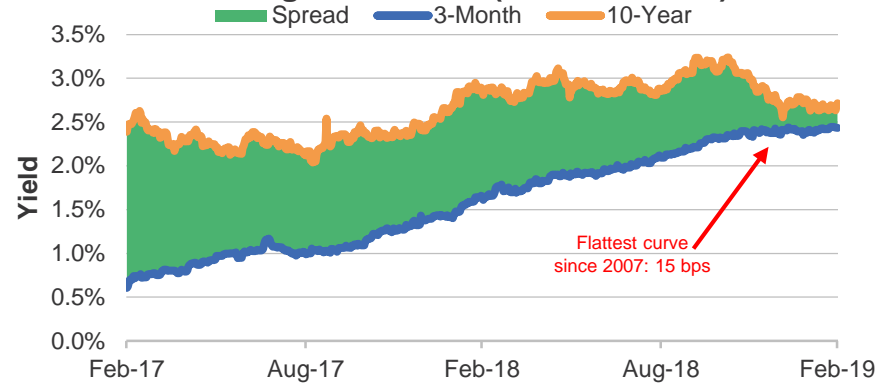


What We're Watching...

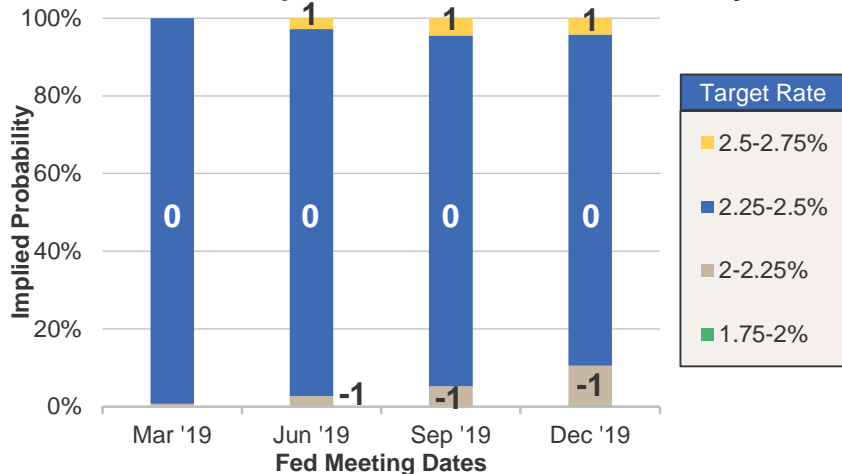
1-5 Year Corporate Spreads



Flattening Yield Curve (10-Yr vs. 3-Mo)



Market Implied Fed Rate Hike Probability



Yield Environment

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate	BBB Corporate
3-Month	2.43%	2.40%	2.59%	2.70%	2.97%
1-Year	2.54%	2.43%	2.68%	2.81%	3.12%
2-Year	2.51%	2.55%	2.75%	2.94%	3.32%
3-Year	2.49%	2.54%	2.79%	2.99%	3.44%
5-Year	2.51%	2.63%	2.97%	3.18%	3.72%
10-Year	2.72%	3.00%	3.44%	3.72%	4.36%

Source: Bloomberg, yield spreads from ICE BofAML Indices, as of 02/28/19. Implied Fed rate hike probability, as of 02/28/2019.



Yield Environment as of February 28, 2019

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate	BBB Corporate
3-Month	2.43%	2.40%	2.59%	2.70%	2.97%
1-Year	2.54%	2.43%	2.68%	2.81%	3.12%
2-Year	2.51%	2.55%	2.75%	2.94%	3.32%
3-Year	2.49%	2.54%	2.79%	2.99%	3.44%
5-Year	2.51%	2.63%	2.97%	3.18%	3.72%
10-Year	2.72%	3.00%	3.44%	3.72%	4.36%

Source: Bloomberg BVAL yield curves for Treasury and Corporate. TradeWeb for Federal Agency yields. 3-month corporate yields from commercial paper; A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue.



1-3 Year Index Returns

February 28, 2019	Effective Duration	Yield	YTD	1 Month	3 Month	1 Year	3 Years	5 Years
U.S. Treasury	1.78	2.52%	0.37%	0.10%	1.16%	2.29%	0.84%	0.83%
Agency	1.69	2.53%	0.40%	0.13%	1.16%	2.42%	1.05%	0.99%
Non-callable	1.76	2.55%	0.40%	0.12%	1.17%	2.40%	1.01%	0.96%
Callable	1.37	2.44%	0.43%	0.16%	1.13%	2.51%	1.19%	1.09%
U.S. Treasury/Agency	1.77	2.52%	0.37%	0.10%	1.16%	2.30%	0.86%	0.85%
Corp A-AAA	1.80	3.00%	0.93%	0.26%	1.67%	3.04%	1.88%	1.56%
Corp AAA	1.68	2.70%	0.59%	0.17%	1.33%	2.66%	1.31%	1.21%
Corp AA	1.77	2.90%	0.85%	0.22%	1.59%	3.04%	1.70%	1.43%
Corp A	1.81	3.05%	0.97%	0.28%	1.70%	3.05%	1.95%	1.61%
Corp BBB	1.81	3.44%	1.23%	0.48%	1.90%	3.20%	2.80%	2.00%
Corp/Govt	1.78	2.70%	0.56%	0.17%	1.33%	2.54%	1.23%	1.09%
MBS 0 - 3	4.30	3.15%	0.50%	(0.27%)	2.35%	2.66%	1.25%	1.20%
ABS 0 - 3	1.10	2.85%	0.65%	0.29%	1.10%	2.69%	1.61%	1.33%
Corp/Govt/Mtge	1.79	2.71%	0.56%	0.17%	1.33%	2.54%	1.23%	1.09%
Supranationals	1.81	2.62%	0.41%	0.14%	1.23%	2.60%	1.13%	1.04%

Source: ICE BofAML Indices. Returns greater than one year are annualized.



Disclosures

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