



Monthly Market Review

Information provided by MILAF+'s Investment Adviser PFM Asset Management LLC

"Bad news may be good news; good news is good news."

Economic Highlights

- November brought relief from the grind and tension of the presidential campaign, bad news on the pandemic front (a rise in infections) but good news on the vaccine front. For investors, though, it was all good.
- The surge in coronavirus infections and hospitalizations is sure to retard the economic recovery. But it also increases the likelihood of strong fiscal relief measures and strengthens the case for the Federal Reserve (Fed) to maintain low rates for a long time. Assuming the COVID-19 vaccines bring the virus under control, strong fiscal and monetary policy should ultimately boost the economy into full recovery.
- The ultimate move and reach of fiscal stimulus to supplement the CARES Act is likely to be re-visited in the new year — with a new administration in Washington. The betting is that there will be more, not less stimulus down the road, though the size and shape remains to be seen. For the moment, investors see this too as a positive.
- Meanwhile, the Fed is keeping the monetary policy pedal to the metal. In statements and testimony, Chair Jerome Powell and other members of the Federal Open Market Committee play the backdrop of economic uncertainty as a reason to maintain low rates for the foreseeable future.
- For now, there are signs that current conditions have weakened. Retail sales climbed in October at the slowest pace in six months, confirming that consumers are becoming more hesitant to spend amid a new wave of infections. Likewise, consumer confidence deteriorated off six-month highs in November. Less optimism about the state of the economy appears to have dampened prospects for holiday shopping, as new public health restrictions may limit consumer and business activity in the months ahead.
- The labor market also showed signs of slowing momentum as the U.S. economy added 245,000 jobs in November, well shy of the 460,000 estimated and down sharply from October's reading. The unemployment rate fell to 6.7% as the labor force shrunk. The number of Americans collecting unemployment benefits remains elevated.
- Activity in housing remained robust as demand remained strong and mortgage rates fell to a new record low.

Bond Markets

- After relative stability from April through September, volatility in the U.S. Treasury market picked up over the last two months. Long-term yields are well-contained but seem to be creeping higher, while yields less than two years are nearly unchanged over several months and anchored near zero. Directionally, the path of least resistance for long-term yields may be to continue the slow creep upward.
- A flattening yield curve in November led to longer-duration strategies outperforming their short-term counterparts. For the month, the

3-month Treasury index generated a muted return of only 0.01%, while the 5-year and 10-year Treasury indices returned 0.16% and 0.31%, respectively.

- Corporate debt continued to lead relative performance among most investment-grade (IG) fixed income asset classes as spreads continued to tighten modestly amid reduced corporate issuance gradually.

Equity Markets

- Domestic equity indices posted a record month of gains as vaccine developments overshadowed the surge in coronavirus infections. The Dow marked its best monthly gain since January of 1987 and its best November since 1928, while the S&P 500 had its best November ever. For November, the S&P 500 rose 10.8%; the NASDAQ surged 11.8% and the Dow soared 11.8%.
- International equities kept pace with the ACWI ex-USA Index of global equities up 13.45% in November. Meanwhile, the U.S. Dollar Index (DXY) depreciated to a two-year low in November. The currency experienced weakness as investor appetite for risk increased on vaccine progress and additional fiscal stimulus prospects.

PFM Strategy Recap

- Despite what could be game-changing news on the vaccine front, the U.S. economic recovery shows signs of slowing as escalating new cases prompted new lockdown restrictions. Simultaneously, the Fed's easy money policy has kept yields within narrow ranges and supports stable credit conditions, so our neutral duration strategy remains unchanged.
- Federal agency spreads are now near historic tights, most notably on maturities inside of five years. The recent new issue concessions have been underwhelming relative to recent months. We continue to focus on adding to the sector from the new issue market funded via the sale of shorter agency holdings that have tightened noticeably since the original purchase.
- Corporate spreads inched tighter in November as new supply slowed. While reasons to increase allocations to the sector have waned, IG corporates will remain a core holding in portfolios.
- AAA-rated asset-backed securities (ABS) appear rich on a historical basis, as spreads have narrowed to near the tights of early 2020. We will likely remain neutral on the sector over the final month of 2020, anticipating better supply opportunities in 2021.
- Mortgage-backed securities (MBS) are also expensive. While holding current positions, we will likely remain cautious on new additions in the sector, as MBS faces a series of headwinds, including elevated prepayments.
- In the money market maturity range, high-quality short-term corporate debt offers a modest opportunity to earn added income, especially compared with short-term Treasury bills or bank deposits.

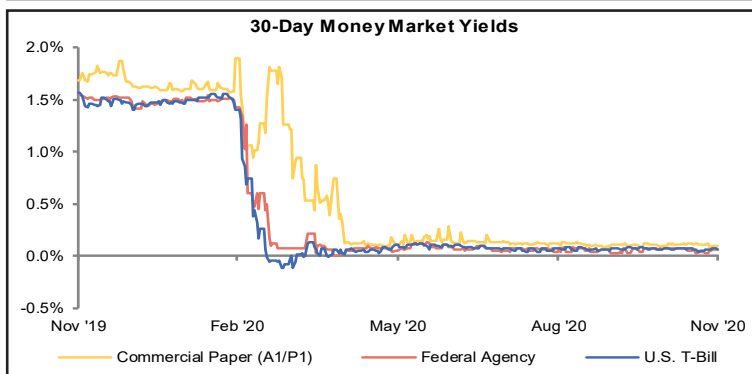
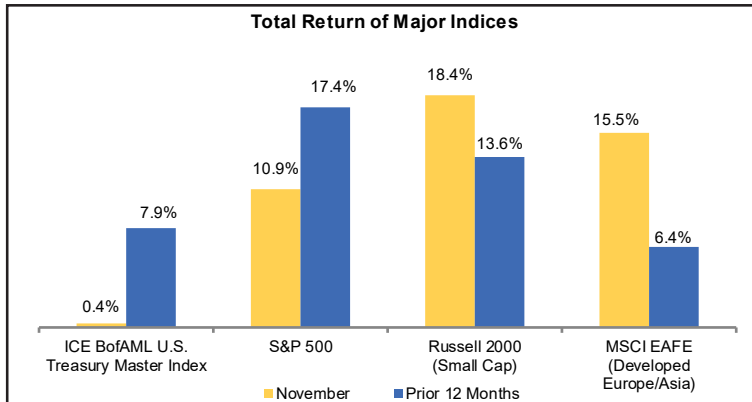
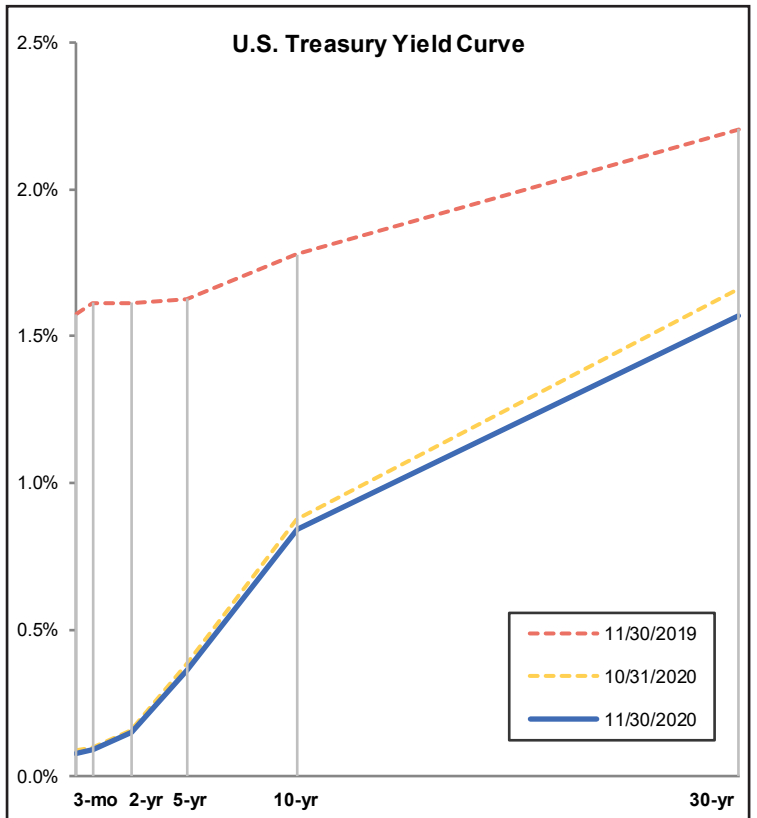
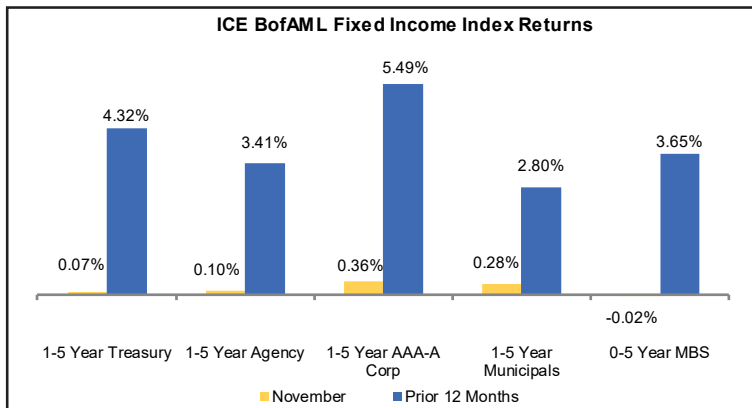
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U.S. Treasury Yields				
Duration	Nov 30, 2019	Oct 31, 2020	Nov 30, 2020	Monthly Change
3-Month	1.58%	0.09%	0.08%	-0.01%
6-Month	1.61%	0.10%	0.09%	-0.01%
2-Year	1.61%	0.16%	0.15%	-0.01%
5-Year	1.63%	0.39%	0.36%	-0.03%
10-Year	1.78%	0.88%	0.84%	-0.04%
30-Year	2.21%	1.66%	1.57%	-0.09%

Yields by Sector and Maturity as of November 30, 2020				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.08%	0.05%	0.19%	--
6-Month	0.09%	0.05%	0.23%	--
2-Year	0.15%	0.18%	0.32%	0.27%
5-Year	0.36%	0.46%	0.71%	0.53%
10-Year	0.84%	1.09%	1.48%	1.11%
30-Year	1.57%	1.71%	2.47%	1.65%

Spot Prices and Benchmark Rates				
Index	Nov 30, 2019	Oct 31, 2020	Nov 30, 2020	Monthly Change
1-Month LIBOR	1.70%	0.14%	0.15%	0.01%
3-Month LIBOR	1.91%	0.22%	0.23%	0.01%
Effective Fed Funds Rate	1.56%	0.09%	0.09%	0.00%
Fed Funds Target Rate	1.75%	0.25%	0.25%	0.00%
Gold (\$/oz)	\$1,466	\$1,880	\$1,776	-\$104
Crude Oil (\$/Barrel)	\$55.17	\$35.79	\$45.34	\$9.55
U.S. Dollars per Euro	\$1.10	\$1.16	\$1.19	\$0.03

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	17-Nov	Oct	0.3%	0.5%
Consumer Confidence	24-Nov	Nov	96.1	98.0
GDP Annualized QoQ	25-Nov	3Q S	33.1%	33.1%
PCE Core Deflator YoY	25-Nov	Oct	1.4%	1.4%
ISM Manufacturing	1-Dec	Nov	57.5	58.0
Change in Nonfarm Payrolls	4-Dec	Nov	245k	460k
Unemployment Rate	4-Dec	Nov	6.7%	6.7%



Source: Bloomberg. Data as of November 30, 2020, unless otherwise noted. The views expressed constitute the perspective of PFM Asset Management LLC 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. Investment advisory services are provided by PFM Asset Management LLC, which is registered with the SEC under the Investment Advisers Act of 1940. For more information regarding PFM's services or entities, please visit www.pfm.com.

