

# Monthly Market Review



Information provided by VA SNAP's Investment Manager PFM Asset Management LLC

"Is this the eye of the hurricane?"

## Economic Highlights

- The U.S. economy continues to slowly recover in the face of a recent resurgence in COVID-19 cases in several states. At the same time, sharp tensions between the U.S. and China have emerged from the pandemic's shadow.
- The Federal Reserve (Fed) left its policies unchanged at the July Federal Open Market Committee meeting and reinforced its commitment to support economic recovery with an expansive monetary policy. The Fed intends to keep rates near zero, continue its purchase of government securities and maintain its support of the credit markets. These efforts are likely to remain until the monetary policy body is confident that the economy has weathered the virus and is on track to achieve its goals of maximum employment and stable prices.
- The U.S. economy suffered a record contraction in the second quarter as gross domestic product fell by an annual rate of 32.9%. The decline was driven by a deep pullback in consumer spending, which accounts for about 70% of economic activity. Business investment and residential housing also suffered sharp declines, while federal government spending rose. U.S. economic activity is expected to rebound in the second half of the year.
- The U.S. economy added 1.8 million jobs in July following a record 4.8 million jobs in June. Job gains in leisure and hospitality and the government sector accounted for more than half of the total gains. The unemployment rate continued to improve, falling from 11.1% to 10.2% in July. A job gap remains compared to pre-pandemic numbers, and there are 15 million fewer employed workers in the U.S.
- Manufacturing and service sector activity picked up again in July. ISM manufacturing rose on a sharp acceleration in new orders. ISM services activity also expanded at a better-than-expected pace.

## Bond Markets

- Treasury yields fell during the month, with longer-term yields leading the retreat, resulting in a flatter yield curve. The yield on maturities between two and 10 years settled at new lows as bond market volatility waned.
- Falling Treasury yields led to positive performance, especially in longer maturities. For the month, the 3-month Treasury index returned 0.02%, the 5-year index returned 0.40% and the 10-year index returned 1.16%.
- New supply shrank in the investment-grade (IG) corporate bond markets as IG companies raised \$68 billion of debt, less than half of the \$180 billion raised in June. Meanwhile, 1- to 5-year IG corporates generated excess returns relative to Treasuries of 35 to 65 basis points (bps) in August, while longer corporate maturities offered upwards of 300 bps of excess return.

## Equity Markets

- For the fourth consecutive month, U.S. equity markets advanced on early vaccine progress and prospects for more fiscal stimulus. Better-than-expected corporate earnings and strong returns from mega-cap and technology sectors helped lift the S&P 500 into positive territory for the year. For July, the S&P 500 rose 5.5%, the NASDAQ jumped 6.8% and the Dow managed a gain of 2.4%.
- The U.S. Dollar Index (DXY) fell for a second consecutive month, declining by 4.2% in July. At the same time, gold jumped by 11% to a record high near \$2,000/ounce. The decline in the dollar is beginning to worry some investors.

## PFM Strategy Recap

- With few catalysts on the horizon that could pressure yields meaningfully higher, our strategy remains to maintain a neutral duration position relative to benchmarks.
- The federal agency sector offered elevated yield spreads, especially in maturities three years and longer. We continued to add these securities to portfolios focusing on value in new issues.
- In the corporate sector, compelling spread levels have dissipated, and the sector is now nearly back to pre-COVID-19 levels. With balance sheets more leveraged and a flatter spread curve, PFM adopted a modestly defensive and more selective bias in the sector. At the same time, we continue to view corporates as an important core holding in portfolios. We have reduced exposure to those issuers that have experienced relatively significant spread tightening or are in industries that face headwinds as a result of current global economic conditions.
- AAA-rated asset-backed securities (ABS) are also back near pre-COVID-19 levels. We have maintained core allocations in the sector as the incremental income they offer is expected to help buoy portfolio returns in the low rate environment.
- Mortgage-backed securities (MBS) continue to benefit from Fed support. While spreads are modestly attractive versus other alternatives, the primary risk is elevated prepayments, which have surged as mortgage rates declined. We have maintained allocations in the sector, focusing on coupons and structures with less prepayment risk.
- High-quality taxable municipal debt remains a significant opportunity and alternative to the expensive corporate sector. Supply has increased, and new issue yields continue to provide good value.

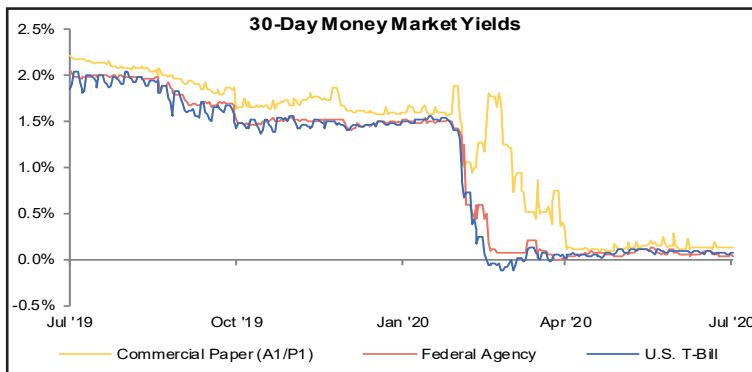
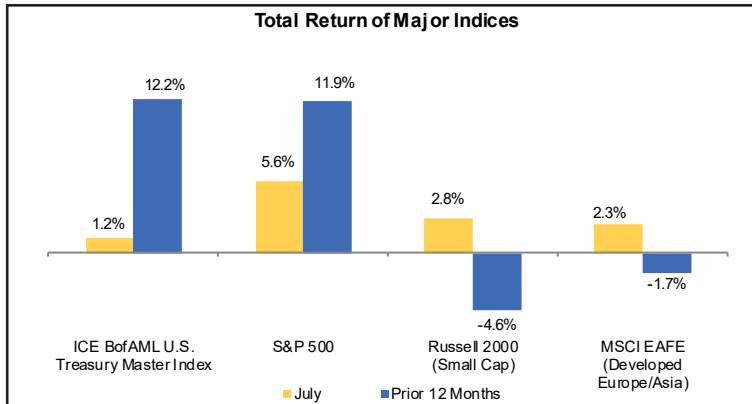
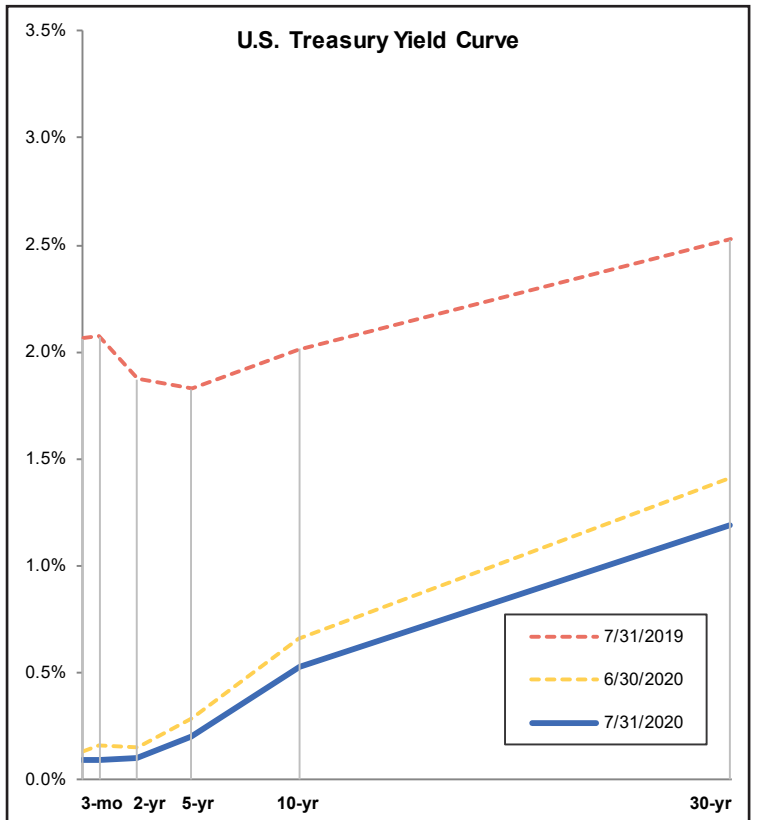
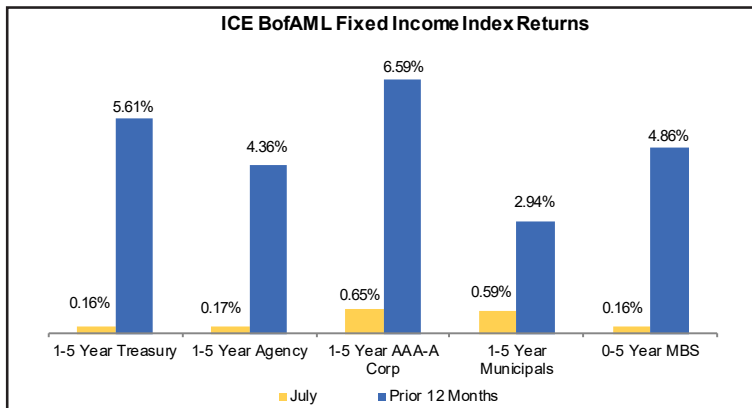
*This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the investment objectives, risks, charges and expenses before investing in the Virginia State Non-Arbitrage Program ("SNAP" or the "Program"). This and other information about the Program is available in the SNAP Information Statement, which should be read carefully before investing. A copy of the SNAP Information Statement may be obtained by calling 1-800-570-SNAP (7627) or is available on the Program's website at [www.vasnap.com](http://www.vasnap.com). While the SNAP Fund Portfolio seeks to maintain a stable net asset value of \$1.00 per share, it is possible to lose money investing in the Program. An investment in the Program is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the SNAP Fund Portfolio are distributed by **PFM Fund Distributors, Inc.**, member Financial Industry Regulatory Authority (FINRA) ([www.finra.org](http://www.finra.org)) and Securities Investor Protection Corporation (SIPC) ([www.sipc.org](http://www.sipc.org)). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC.*

U.S. Treasury Yields				
Duration	Jul 31, 2019	Jun 30, 2020	Jul 31, 2020	Monthly Change
3-Month	2.07%	0.14%	0.09%	-0.05%
6-Month	2.07%	0.16%	0.10%	-0.06%
2-Year	1.87%	0.15%	0.11%	-0.04%
5-Year	1.83%	0.29%	0.21%	-0.08%
10-Year	2.02%	0.66%	0.53%	-0.13%
30-Year	2.53%	1.41%	1.19%	-0.22%

Yields by Sector and Maturity as of July 31, 2020				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.09%	0.07%	0.19%	--
6-Month	0.10%	0.08%	0.24%	--
2-Year	0.11%	0.17%	0.33%	0.23%
5-Year	0.21%	0.40%	0.68%	0.48%
10-Year	0.53%	0.92%	1.41%	1.04%
30-Year	1.19%	1.44%	2.39%	1.64%

Spot Prices and Benchmark Rates				
Index	Jul 31, 2019	Jun 30, 2020	Jul 31, 2020	Monthly Change
1-Month LIBOR	2.22%	0.16%	0.15%	-0.01%
3-Month LIBOR	2.27%	0.30%	0.25%	-0.05%
Effective Fed Funds Rate	2.40%	0.08%	0.10%	0.02%
Fed Funds Target Rate	2.25%	0.25%	0.25%	0.00%
Gold (\$/oz)	\$1,426	\$1,801	\$1,963	\$162
Crude Oil (\$/Barrel)	\$58.58	\$39.27	\$40.27	\$1.00
U.S. Dollars per Euro	\$1.11	\$1.12	\$1.18	\$0.06

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Consumer Confidence	28-Jul	Jul	92.6	95.0
GDP Annualized QoQ	30-Jul	2Q A	-32.9%	-34.5%
PCE Core Deflator YoY	31-Jul	Jun	0.9%	1.0%
ISM Manufacturing	3-Aug	Jul	54.2	53.6
Continuing Claims	6-Aug	Jul 25	16,107k	16,900k
Unemployment Rate	7-Aug	Jul	10.2%	10.6%
Retail Sales MoM	14-Aug	Jul	1.2%	2.1%



Source: Bloomberg. Data as of July 31, 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](http://www.pfm.com).

