Monthly Market Review

Information provided by PLGIT's Investment Adviser PFM Asset Management LLC

"Economic clouds thicken as markets remain resilient."

Economic Highlights

- The COVID-19 surge in the U.S. that began in July peaked in September before trailing off sharply. The overall toll remains staggering, with 44 million cases and more than 700,000 deaths in the U.S. The surge impaired economic activity over the few months.
- The labor market is showing evidence of the stresses of the COVID-19 economy. Job gains in September disappointed for a second straight month as the U.S. economy added only 194,000 new jobs, far short of expectations for roughly 500,000 and well below the average of 641,000 for the first seven months of the year. Meanwhile, the workweek lengthened, the labor force shrank and the labor participation rate fell. This led to a 0.4% decline in the unemployment rate to 4.8%. Output in the economy now surpasses the pre-COVID period but there are about five million fewer people employed.
- On the inflation front, the consumer price index (CPI) rose 5.3% for the twelve months through August, down slightly from the prior month. Surging prices for energy and new and used cars accounted for more than half the overall gain. The producer price index (PPI) rose for the eighth straight month, reaching a whopping 8.3% increase over the past year as commodity prices remain elevated.
- At the September Federal Open Market Committee (FOMC) meeting, Federal Reserve (Fed) Chair Jerome Powell said that the central bank could begin scaling back asset purchases as soon as November and complete the process by mid-2022. Powell assured investors that tapering does not start the clock on interest rate hikes.
- In its quarterly summary of economic projections, the Fed lowered its expectation for GDP growth in 2021 but raised its forecast for 2022 and 2023 modestly. The central bank raised its median projection for inflation by sizable amounts for 2021, but its forecasts continue to express the view that inflation will be transitory as projections for 2023 and beyond were little changed. The Fed revealed that half of the FOMC's 18 survey participants now expect to lift interest rates at least once in 2022. For 2023, the median target range was raised to 1.00%.

Bond Markets

- U.S. Treasury yields rose and the yield curve steepened as the bond market priced in recovery from the recent spike in COVID-19 infections and the Fed's more aggressive tapering timetable. The yield on the benchmark 10-year note jumped 18 basis points (bps) to end the month at 1.49%. Meanwhile, the yield on the 2-year note rose by seven bps to 0.28%, while the yield on the 3-month Treasury bill was unchanged at 0.03%. The third quarter trading ranges were quickly breached in early October with persistent upward pressure on rates.
- Yield volatility on very short-term Treasuries reflected the uncertainty around the political maneuvering over an extension of the U.S. debt ceiling. At first, the focus was on a mid-October drop-dead date but Congress passed a nine-week spending bill in early October to avert a government shutdown and a similar extension for the debt ceiling. This likely just pushes the political brinkmanship to early December.
- Treasury benchmark returns suffered from the rise in rates across the curve. While securities with maturities inside one year held value, 5- and 10-year Treasury indexes lost 1.0% and 2.0%, respectively, in September.
- Investment-grade (IG) corporate issuance was strong despite recent rate volatility. Gross issuance in September totaled $167 billion, but investor appetite remains quite robust and yield spreads to Treasuries are modest.

Equity Markets

- U.S. equity markets broke a seven-month winning streak, retreating over higher interest rates, valuation concerns, continuing supply chain issues and rising input costs. The S&P 500 fell 4.7% in September but was still up nearly 16% for the year. The Nasdaq fell 5.3%, while the Dow Jones Industrial Average slipped 4.2% in the month.
- Global stocks also fell, with the MSCI ACWI ex-USA index falling 3.2% in September. Emerging market stocks fell a bit more, down about 4% on the month, and are now negative for the year.

PFM Strategy Recap

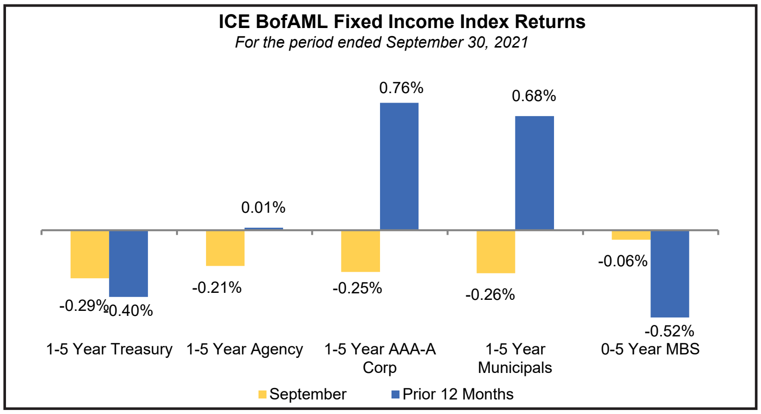
- The rise in long-term interest rates since early August reflects an investor focus on higher inflation and a view that the resurgence of COVID will slow but not halt the economic recovery. We believe that growth will remain modest and that inflation will moderate as supply chain issues ease in coming quarters. While interest rates are likely to rise, we think the move will be contained by uncertainty and the preponderance of negative rates in the rest of the developed world. Thus, we continue to calibrate our overall duration stance to neutral, while maintaining a slightly defensive bias with regard to potential curve steepening.
- Federal agency yields offer virtually no advantage over those of Treasuries, while the new issue supply of Supranationals has presented a small opportunity to pick yield.
- IG corporate spreads have again approached June tights and our defensive posture remains.
- AAA-rated asset-backed securities (ABS) spreads are stable and collateral performance has remained strong. Mortgage-backed securities (MBS) spreads have widened but remain susceptible to further duration extension and price deterioration as rates rise.
- Short-term investors remain challenged by single-digit overnight rates. However, 6-12 month money market yields have risen by a few basis points in a first reflection of the Fed's eventual move to reduce monetary stimulus.

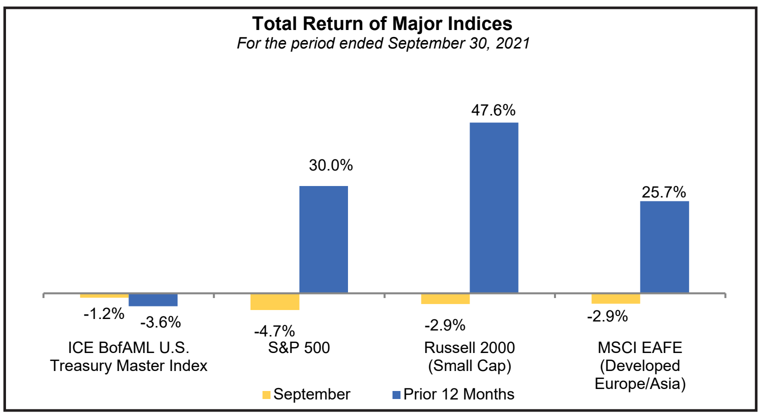
U.S. Treasury Yields				
Duration	Sep 30, 2020	Aug 31, 2021	Sep 30, 2021	Monthly Change
3-Month	0.10%	0.04%	0.04%	0.00%
6-Month	0.10%	0.05%	0.05%	0.00%
2-Year	0.13%	0.21%	0.28%	0.07%
5-Year	0.28%	0.78%	0.97%	0.19%
10-Year	0.69%	1.31%	1.49%	0.18%
30-Year	1.46%	1.93%	2.05%	0.12%

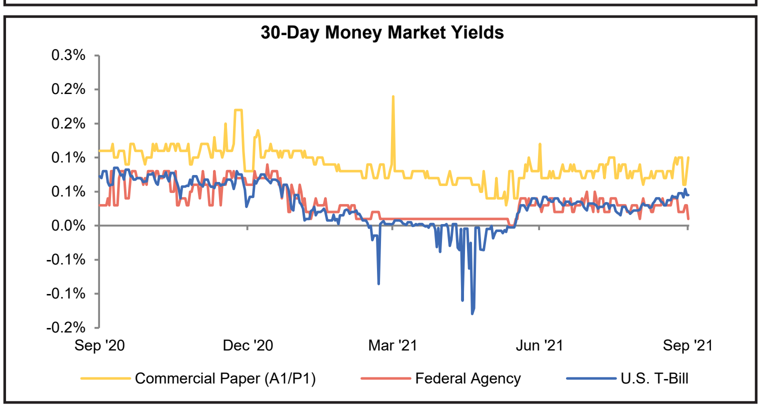
Yields by Sector and Maturity as of September 30, 2021				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.04%	0.03%	0.17%	--
6-Month	0.05%	0.05%	0.19%	--
2-Year	0.28%	0.28%	0.41%	0.18%
5-Year	0.97%	0.99%	1.25%	0.55%
10-Year	1.49%	1.64%	2.12%	1.31%
30-Year	2.05%	2.19%	2.95%	1.88%

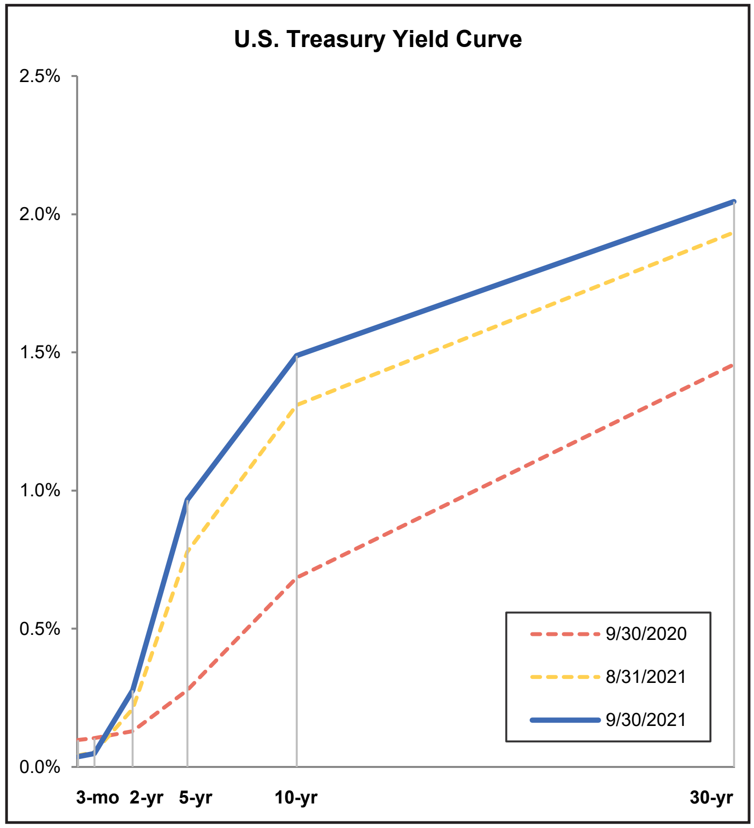
Spot Prices and Benchmark Rates				
Index	Sep 30, 2020	Aug 31, 2021	Sep 30, 2021	Monthly Change
1-Month LIBOR	0.15%	0.08%	0.08%	0.00%
3-Month LIBOR	0.23%	0.12%	0.13%	0.01%
Effective Fed Funds Rate	0.09%	0.06%	0.06%	0.00%
Fed Funds Target Rate	0.25%	0.25%	0.25%	0.00%
Gold ($/oz)	$1,888	$1,816	$1,755	-$61
Crude Oil ($/Barrel)	$40.22	$68.50	$75.03	$6.53
U.S. Dollars per Euro	$1.17	$1.18	$1.16	-$0.02

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	16-Sep	Aug	0.7%	-0.7%
Consumer Confidence	28-Sep	Sep	109.3	115.0
GDP Annualized QoQ	30-Sep	2Q T	6.7%	6.6%
PCE Core Deflator YoY	1-Oct	Aug	3.6%	3.5%
ISM Manufacturing	1-Oct	Sep	61.1	59.5
Change in Nonfarm Payrolls	8-Oct	Sep	194k	500k
Unemployment Rate	8-Oct	Sep	4.8%	5.1%









Source: Bloomberg. Data as of September 30, 2021, unless otherwise noted.

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