

“April Spending Brings May Lending”

Economic Highlights

- ▶ As expected, the Federal Reserve (Fed) left the target range for the federal funds rate unchanged at the March FOMC meeting (5.25% to 5.50%). The Fed also released the quarterly update to its Summary of Economic Projections, which continued to show three rate cuts in calendar year 2024, but one less cut in 2025. During the press conference, Fed Chair Jerome Powell reiterated that the Fed needs greater confidence that inflation is moving sustainably down toward its 2% target before reducing rates. It would also like to see the labor market move into better balance. Stubborn inflation and stronger fundamental economic data will likely delay any rate cuts until later in the year.
- ▶ Inflation readings released in March were mixed: the year-over-year (YoY) change in the Consumer Price Index (CPI) fell by 0.1% to 3.8%, while the Personal Consumption Expenditures Price Index (PCE) rose slightly to 2.5% in February. In a reversal of recent trends, PCE goods prices rose faster than prices in the services sector largely due to rising energy prices. Housing and utilities inflation remained elevated. The YoY change in Core PCE (which excludes volatile food and energy components) fell slightly to 2.8%, marking the fourteenth consecutive month of declines.
- ▶ Job growth in March came in at 303,000, well above expectations. The unemployment rate ticked back down to 3.8% from 3.9%, while wage growth continued to outpace inflation.
- ▶ The final reading for Q4 real gross domestic product (GDP) came in at 3.4%, which was slightly higher than previous estimates. Consumer spending rose at a 3.4% pace in Q4, even better than Q3's robust 3.1% growth rate.
- ▶ The ISM Manufacturing Index showed the sector expanded for the first time since October 2022. This was welcome news for the struggling sector as demand appears to still be in the early stages of recovery.
- ▶ On the housing front, prices continued to climb in January as evidenced by the 6.6% YoY increase in the 20-City Case Shiller Home Price Index. Existing home sales jumped nearly 10% in February after reaching multi-decade lows over the prior six months. However, housing affordability remains poor due to high mortgage rates and low supply.

Bond Markets

- ▶ Despite trading over a 20-30 basis point (bps) range during March, U.S. Treasury yields finished the month relatively unchanged.
- ▶ Short-term yields (less than three months) remained above 5%, while the yield curve remained deeply inverted with shorter maturities continuing to outyield longer ones.
- ▶ The yields on benchmark 2-, 5-, and 10-year U.S. Treasuries ended the month at 4.62%, 4.21%, and 4.20%, respectively, representing changes of 0, -3, and -5 bps for the month, respectively.

- ▶ As a result of modest month-over-month yield changes, income was the primary driver of returns for the month. The ICE BofA 2-, 5-, and 10-year Treasury indices returned 0.31%, 0.47%, and 0.63%, respectively.

Equity Markets

- ▶ Equity markets remained very positive as the S&P 500 Index ended the month at a new all-time high after generating a 3.2% return in March. Market performance began to broaden out as the rally extended beyond the so-called “Magnificent Seven,” which drove index returns over the past five quarters. The Dow Jones Industrial Average also marked a new record after climbing 2.2%, while the NASDAQ grew by 1.8%. International equities (as measured by the MSCI ACWI ex U.S.) also maintained a stellar start to the year, finishing March up 3.1%.
- ▶ The dollar index (DXY) inched higher by 0.3% in March, as markets digested the impact of strong economic data and a comeback of “higher-for-longer” Fed rate rhetoric.

PFMAM Strategy Recap

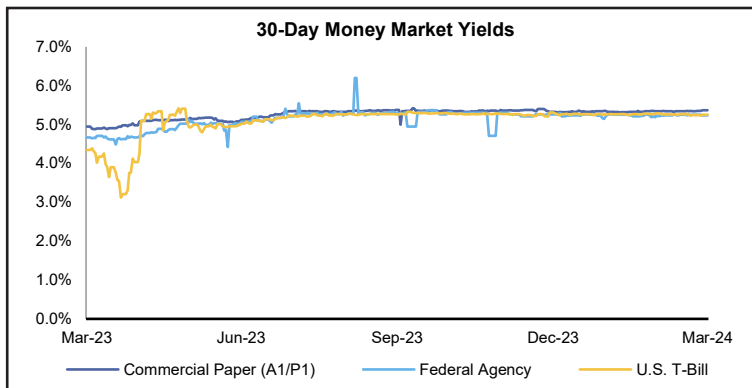
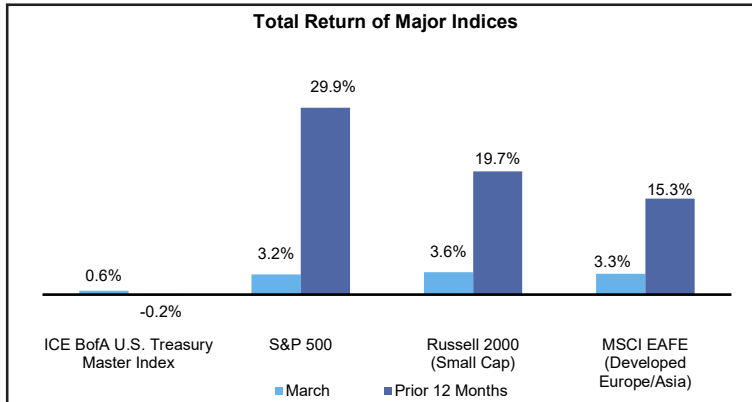
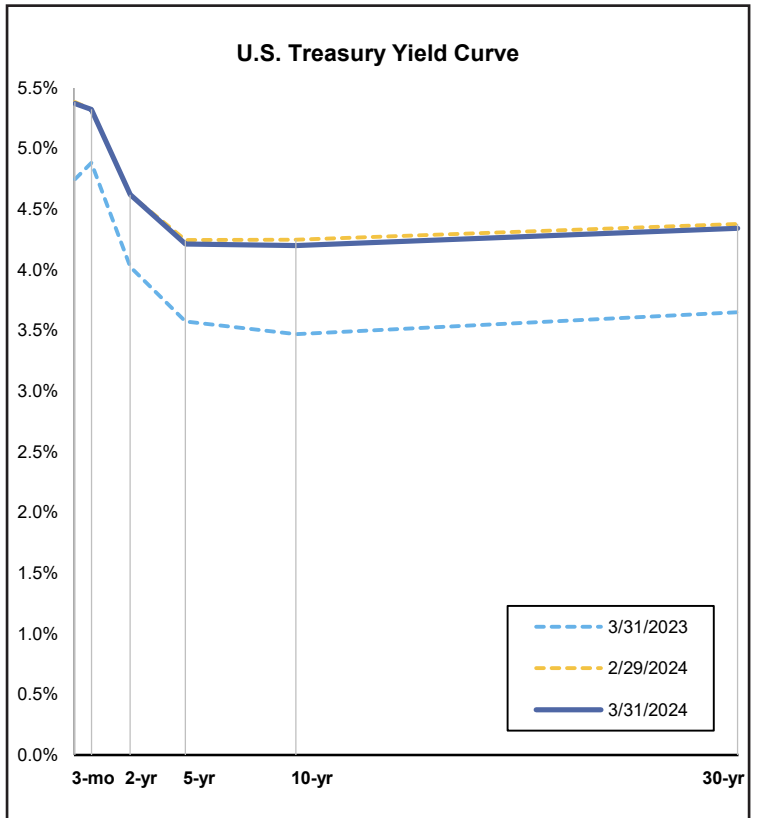
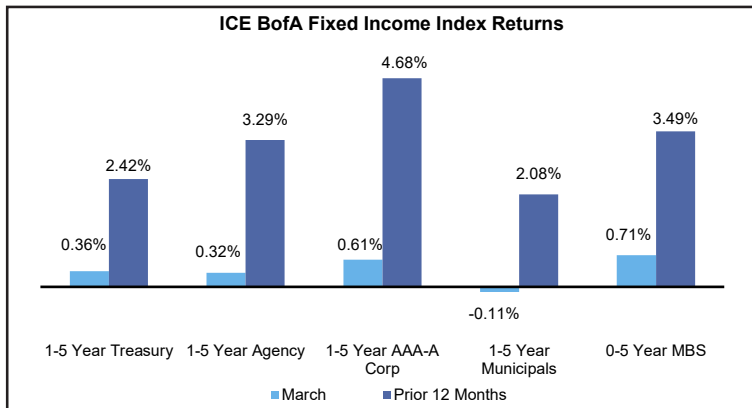
- ▶ Fed guidance continues to suggest lower short-term rates over the course of the year, if inflation continues to ease as expected, although perhaps at a slower pace. As a result, we seek to maintain neutral portfolio durations relative to benchmarks.
- ▶ Spreads on federal agencies and supranationals remained tight and appear to offer limited value.
- ▶ Investment-grade (IG) corporate bond returns have been impressive as investor sentiment and market technicals remained supportive. Spreads on most corporate issuers are near post-Global Financial Crisis lows. Given tight spreads, we may look to opportunistically trim allocations and become more selective. Year-to-date issuance is near a record high pace, presenting many new issue opportunities to choose from.
- ▶ With a tailwind of optimism around the American consumer, asset-backed securities (ABS) remained a top-of-class performer through March, with auto loan-backed issues leading the pack. While new issuance remains robust, new deals have been met with strong demand and oversubscriptions, contributing to strong returns as spreads have broken through 12-month lows.
- ▶ Mortgage-backed securities (MBS) generated firmly positive excess returns for the month as volatility waned and longer Treasury yields drifted lower.
- ▶ Short-term money markets continue to benefit from decade-high yields and a patient Fed. Although short-term credit spreads have tightened compared to historical levels, absolute yield levels on commercial paper and negotiable bank CDs remain enticing for short-term investors.

U.S. Treasury Yields				
Duration	Mar 31, 2023	Feb 29, 2024	Mar 31, 2024	Monthly Change
3-Month	4.75%	5.38%	5.37%	-0.01%
6-Month	4.88%	5.33%	5.32%	-0.01%
2-Year	4.03%	4.62%	4.62%	0.00%
5-Year	3.58%	4.25%	4.21%	-0.04%
10-Year	3.47%	4.25%	4.20%	-0.05%
30-Year	3.65%	4.38%	4.34%	-0.04%

Yields by Sector and Maturity				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	5.37%	5.38%	5.50%	-
6-Month	5.32%	5.32%	5.50%	-
2-Year	4.62%	4.63%	4.98%	2.86%
5-Year	4.21%	4.22%	4.79%	2.47%
10-Year	4.20%	4.26%	5.00%	2.58%
30-Year	4.34%	-	5.31%	3.51%

Spot Prices and Benchmark Rates				
Index	Mar 31, 2023	Feb 29, 2024	Mar 31, 2024	Monthly Change
1-Month LIBOR	4.86%	5.44%	5.44%	0.00%
3-Month LIBOR	5.19%	5.60%	5.56%	-0.04%
Effective Fed Funds Rate	4.83%	5.33%	5.33%	0.00%
Fed Funds Target Rate	5.00%	5.50%	5.50%	0.00%
Gold (\$/oz)	\$1,969	\$2,055	\$2,217	\$163
Crude Oil (\$/Barrel)	\$75.67	\$78.26	\$83.17	\$4.91
U.S. Dollars per Euro	\$1.08	\$1.08	\$1.08	\$0.00

Economic Indicators				
Indicator	Release Date	Period	Actual	"Survey (Median)"
CPI YoY	12-Mar	Feb	3.20%	3.10%
Retail Sales Advance MoM	14-Mar	Feb	0.60%	0.80%
FOMC Rate Decision	20-Mar	Mar	5.50%	5.50%
GDP Annualized QoQ	28-Mar	4Q T	3.40%	3.20%
U. of Mich. Consumer Sentiment	28-Mar	Mar F	79.4	76.5
PCE YoY	29-Mar	Feb	2.50%	2.50%
ISM Manufacturing	1-Apr	Mar	50.3	48.3



Source: Bloomberg. Data as of March 31, 2024, 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, PFMAM 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.

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