



# Q3 Market Recap and Investment Legislation Update

November 18, 2021

Presented By:

**PFM Asset Management LLC**

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## Agenda

- I. Statute Change
- II. Market Update
- III. PFM Update



# **Illinois Public Funds Investment Act Change**



## HB 4573 – Corporate Maturity Limit Expansion

- ◆ Amended the Illinois Public Funds Investment Act
- ◆ Passed both the House and Senate on June 27, 2018
- ◆ Signed into law by Governor on August 10, 2018
- ◆ Allowed IL public entities to invest in corporate obligations from 270 days to 3 years
  - Previously limited to 270 days
  - Issuing Corporations must be organized in the United State and have assets exceeding \$500 million
  - No more than 1/3 of the public entity's funds may be invested in short-term (270 days) corporate obligations



## SB 273 – Corporate Allocation Expansion

- ◆ SB 273 was signed into law on August 6, 2021.
- ◆ SB 273 gives additional flexibility to units of local government by expanding their existing authority to invest in highly-rated corporate obligations, which will provide the potential for a greater return on investment.
- ◆ SB 273 now allows local governments to invest up to two-thirds of their funds in these highly-rated obligations provided that no more than one-third can be invested in short-term corporate obligations with a maturity of 270 days or less at the time of purchase and no more than one-third can be invested in corporate obligations with a maturity greater than 270 days but less than 3 years at the time of purchase.



## Yield Environment as of October 18, 2021

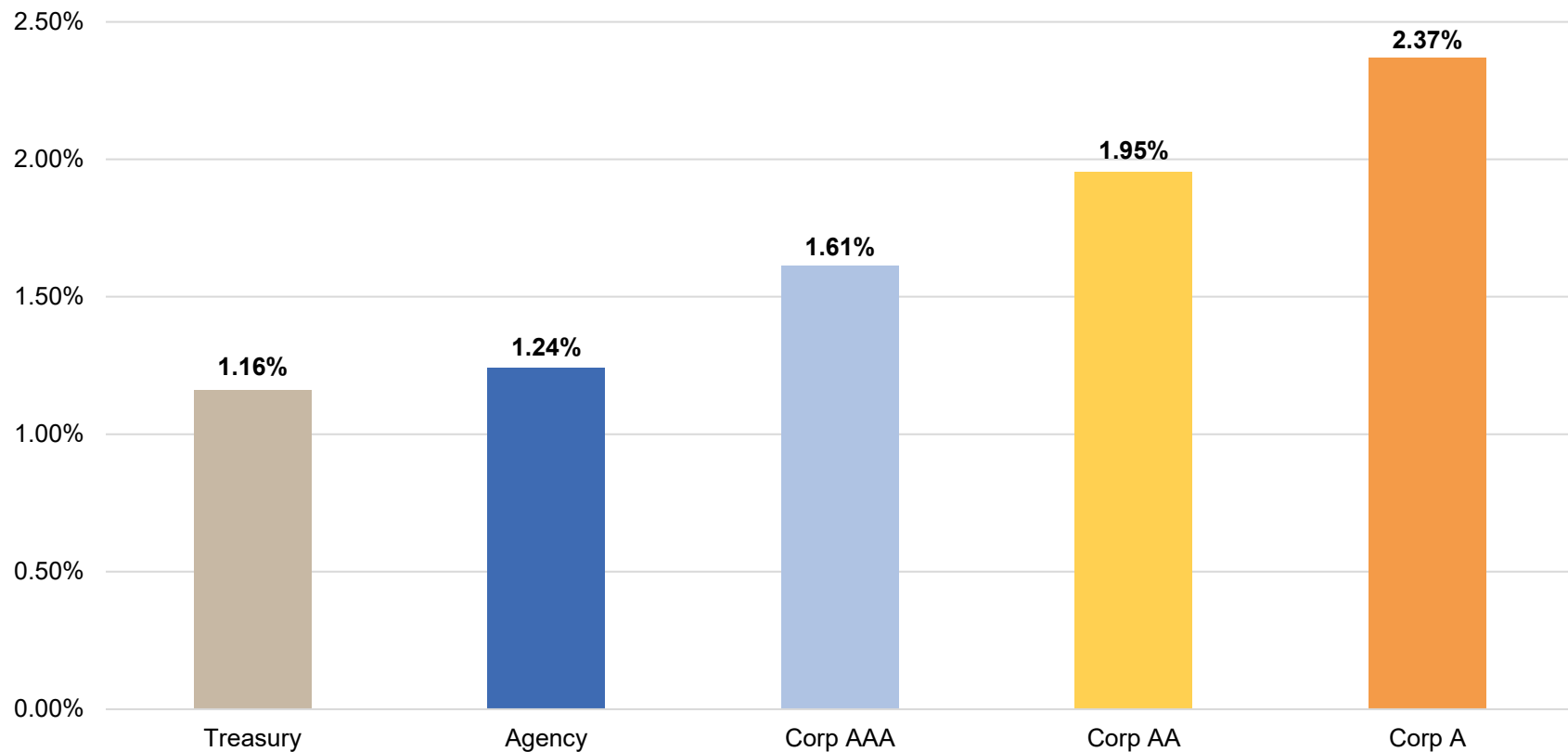
Maturity	Treasury	Federal Agency	AA Corporate	A Corporate
3-Month	0.05%	0.08%	0.22%	0.21%
6-Month	0.05%	0.11%	0.25%	0.25%
1-Year	0.10%	0.16%	0.31%	0.34%
2-Year	0.43%	0.42%	0.52%	0.59%
3-Year	0.74%	0.72%	0.84%	0.94%
5-Year	1.17%	1.15%	1.35%	1.48%

Source: Bloomberg BVAL yield curves for Treasury, Agency and Corporate, as of 10/18/2021. 3 and 6 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.



## Corporate Obligations Outperforms Governments Over the Last Decade

1-3 Year Sector Returns  
(10 Years annualized)



Source: ICE BofAML Indices. As of 9/30/2021.



# Market Update







## Summary of Current Market Themes



- COVID-19 continues to overshadow the economic and market landscape



- The U.S. economy is characterized by:
  - Continued recovery aided by supportive monetary policy
  - Potentially stagnating labor market growth
  - Heightened inflationary pressures



- Federal Reserve is contemplating the end of unprecedented support
  - Near-term tapering of asset purchases
  - Fed Funds Rate hike now seen possible in late 2022
  - Significant turnover of FOMC leadership

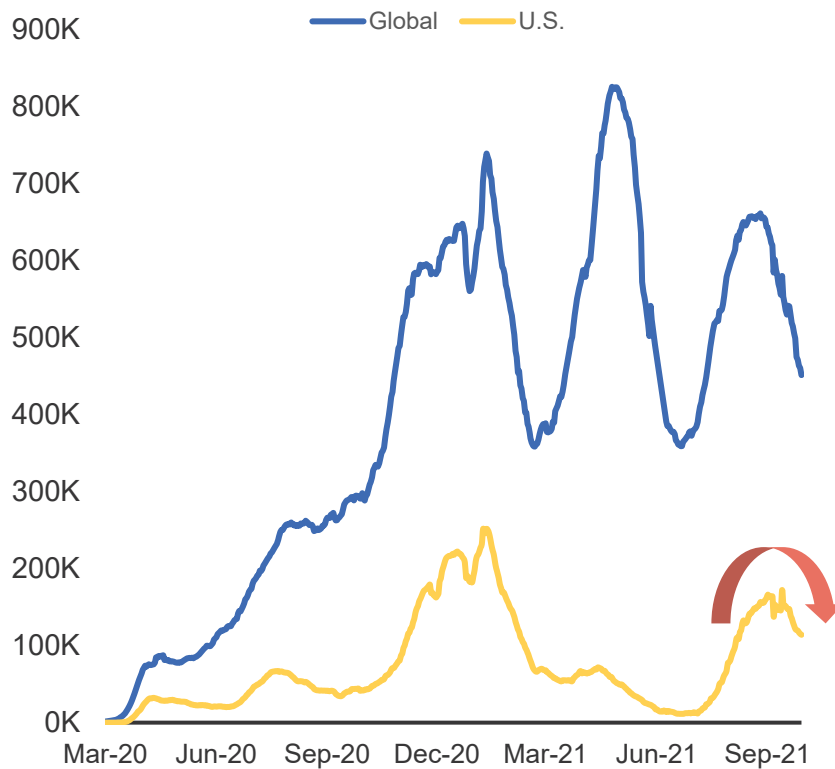


- Fixed income market reacting to changing market dynamics
  - Short-term yields anchored by Fed rate policy
  - Long-term yields rising due to inflationary pressures and tapering

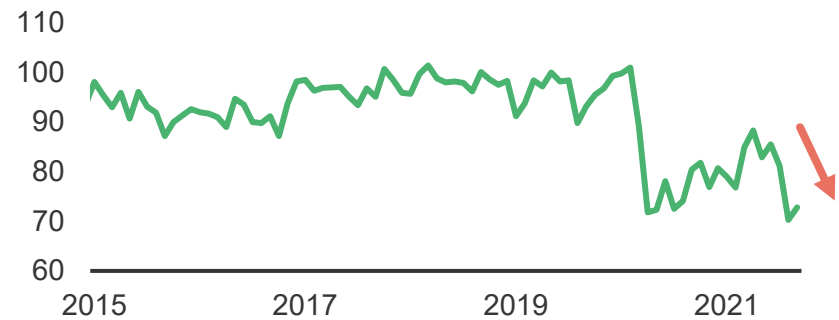


## As COVID Goes, So Goes the Economy

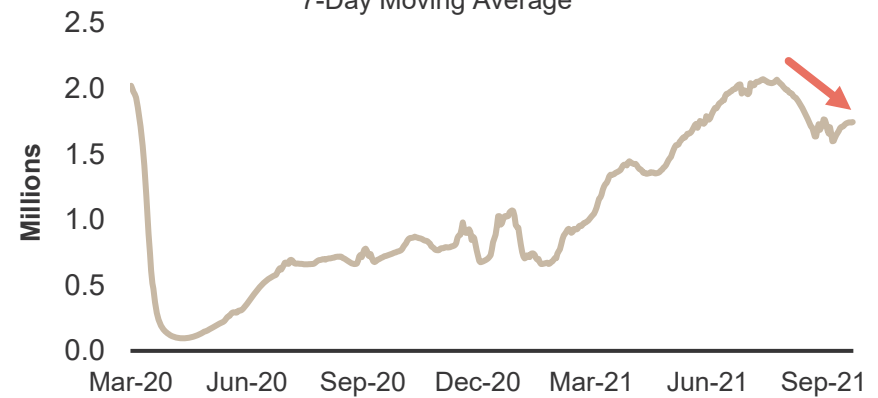
### U.S. New Cases Reported Daily 7-Day Moving Average



### University of Michigan Consumer Sentiment Index



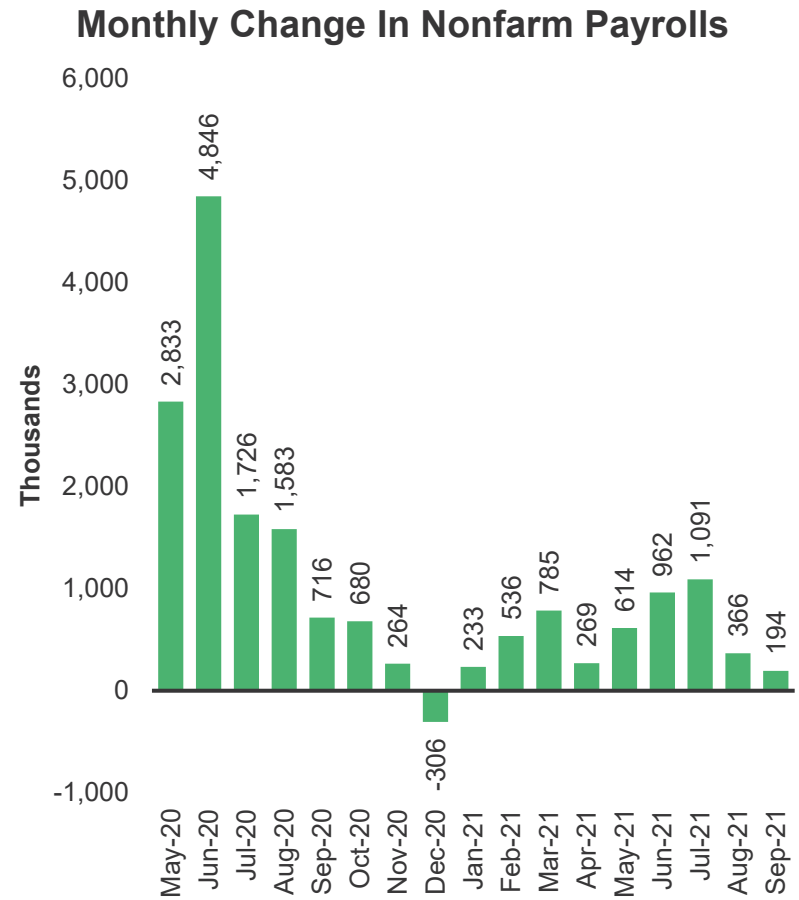
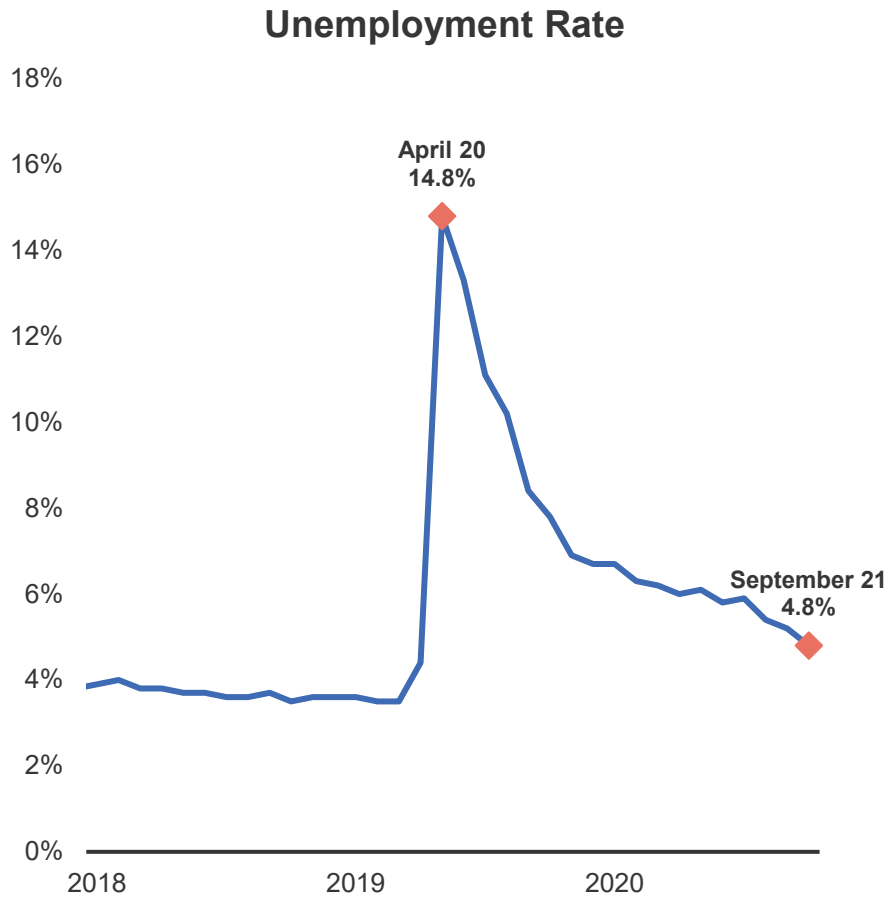
### TSA Checkpoint Travel Numbers 7-Day Moving Average



Source: John Hopkins University Coronavirus Resource Center, PFM calculations (left); Bloomberg (top right, bottom right) as of 9/30/2021.



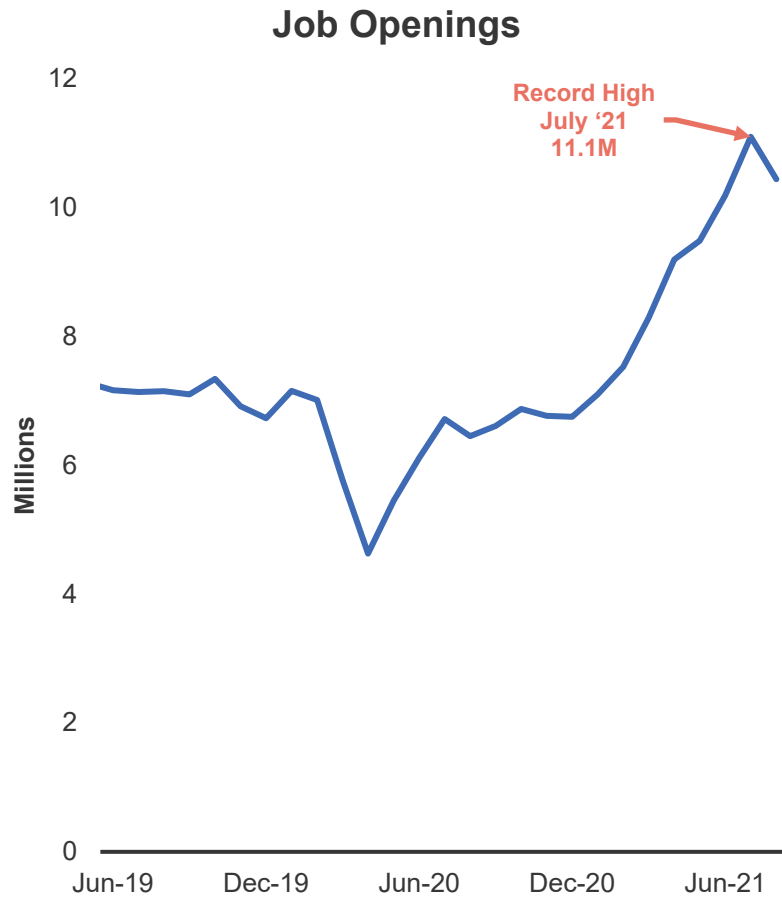
## U.S. Hiring Slowed in August and September



Source: Bloomberg, as of September 2021. Data is seasonally adjusted.



## Job Openings and Quits Rate Are Near Record Highs

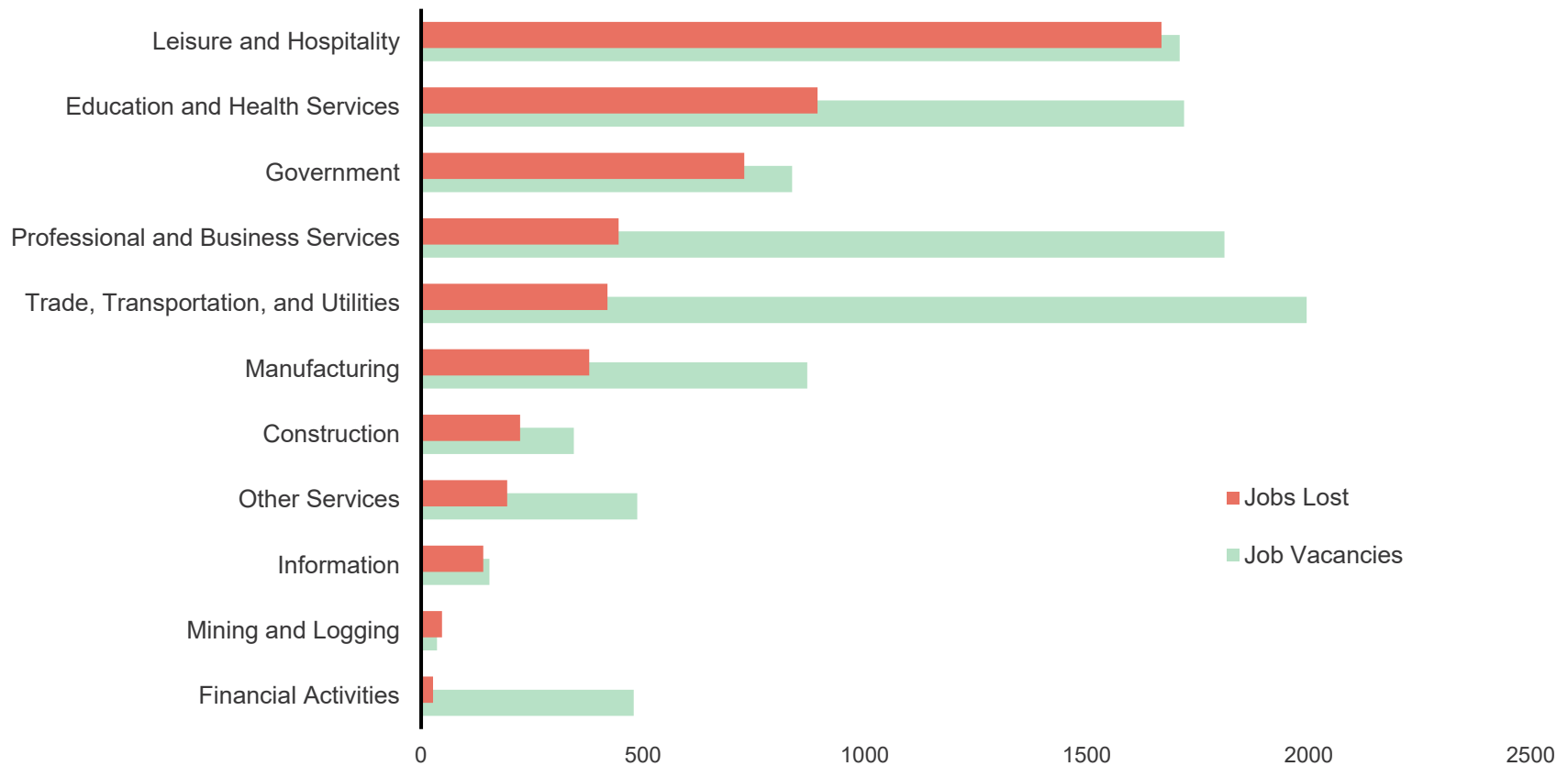


Source: JOLTS and BLS, as of August 2021.



## Labor Shortages Are More Dramatic in Select Industries

Jobs Lost to the Pandemic versus Current Job Openings (in '000s)

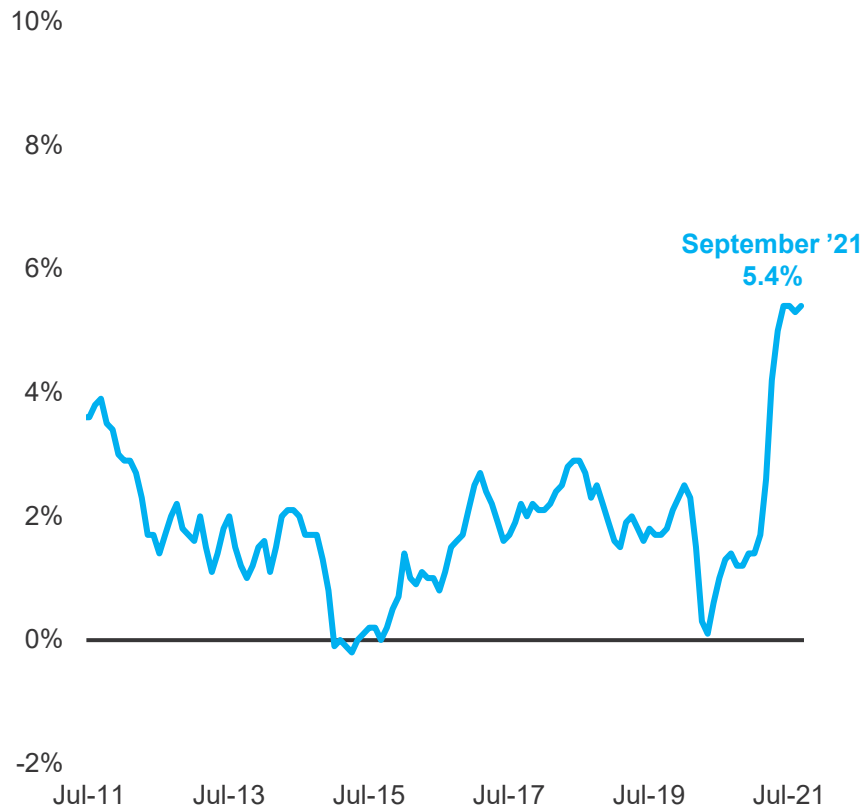


Source: Bureau of Labor Statistics, PFM calculations; most recent data available as of October 2021. Jobs Lost represents a change in payroll employment numbers from February 2020 to August 2021.

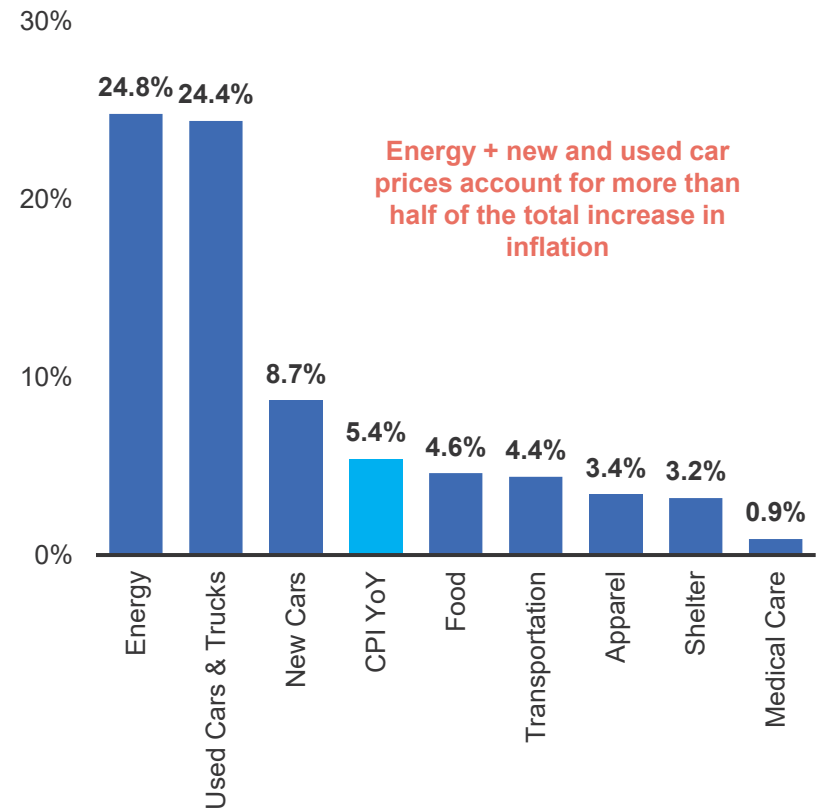


## Consumer Inflation Remains High

Consumer Price Index  
% Change YoY



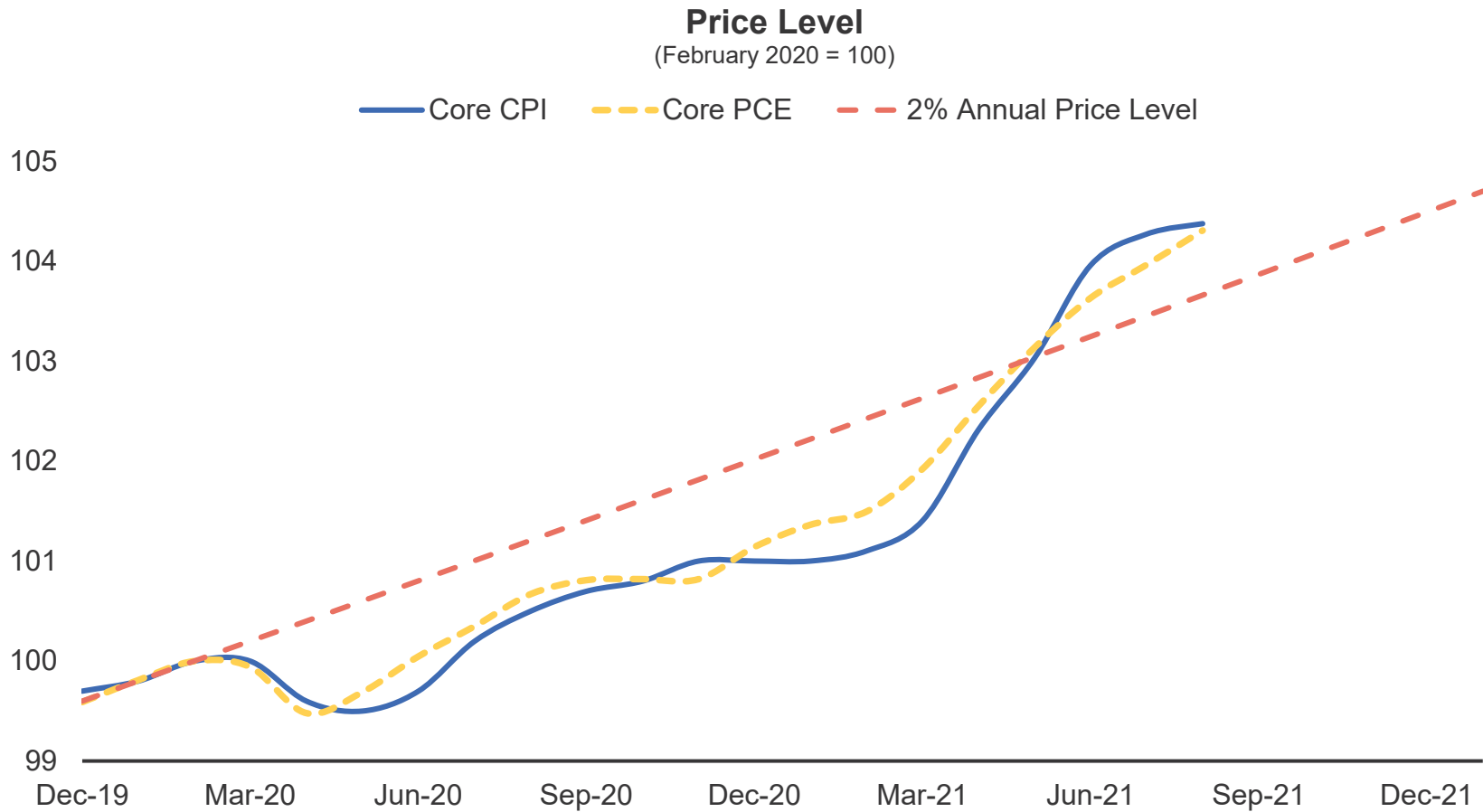
Key Consumer Price Index Components  
% Change YoY



Source: Bloomberg, as of September 2021.



## Inflation Indicators Remain Above Fed's 2% Target



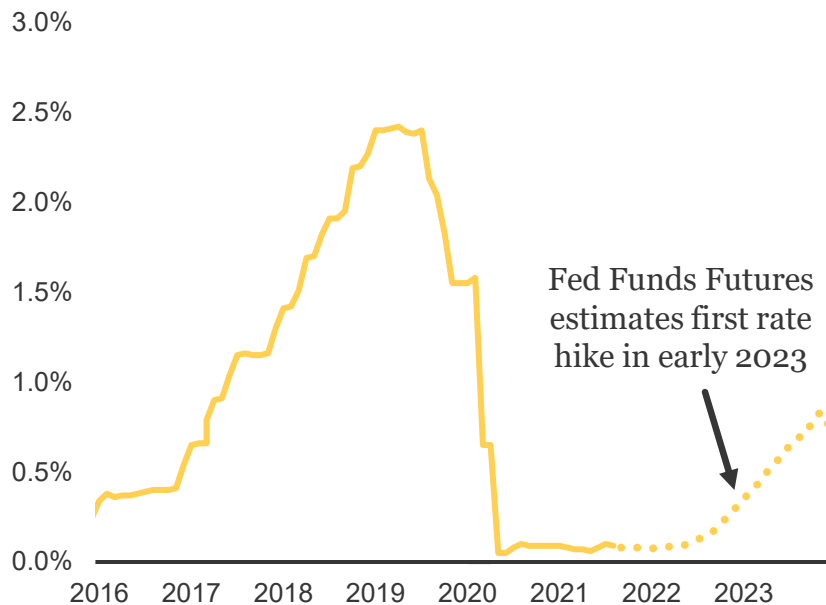
Source: Bloomberg, as of September 2021.



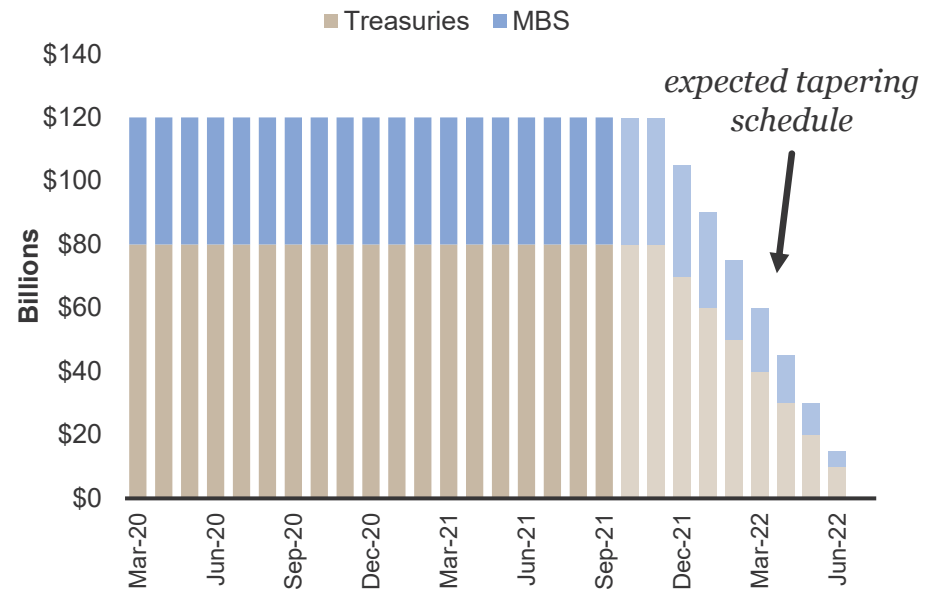
## Tapering Likely to Begin in Late 2021; De-couples Rate Decision

*“If progress continues broadly as expected, **the Committee judges that a moderation in the pace of asset purchases may soon be warranted...** a gradual tapering process that concludes around the middle of next year is likely to be appropriate...The timing and pace of the coming reduction in asset purchases **will not be intended to carry a direct signal regarding the timing of interest rate liftoff**, for which we have articulated a different and substantially more stringent test.”*

### Federal Funds Rate



### Fed Asset Purchases



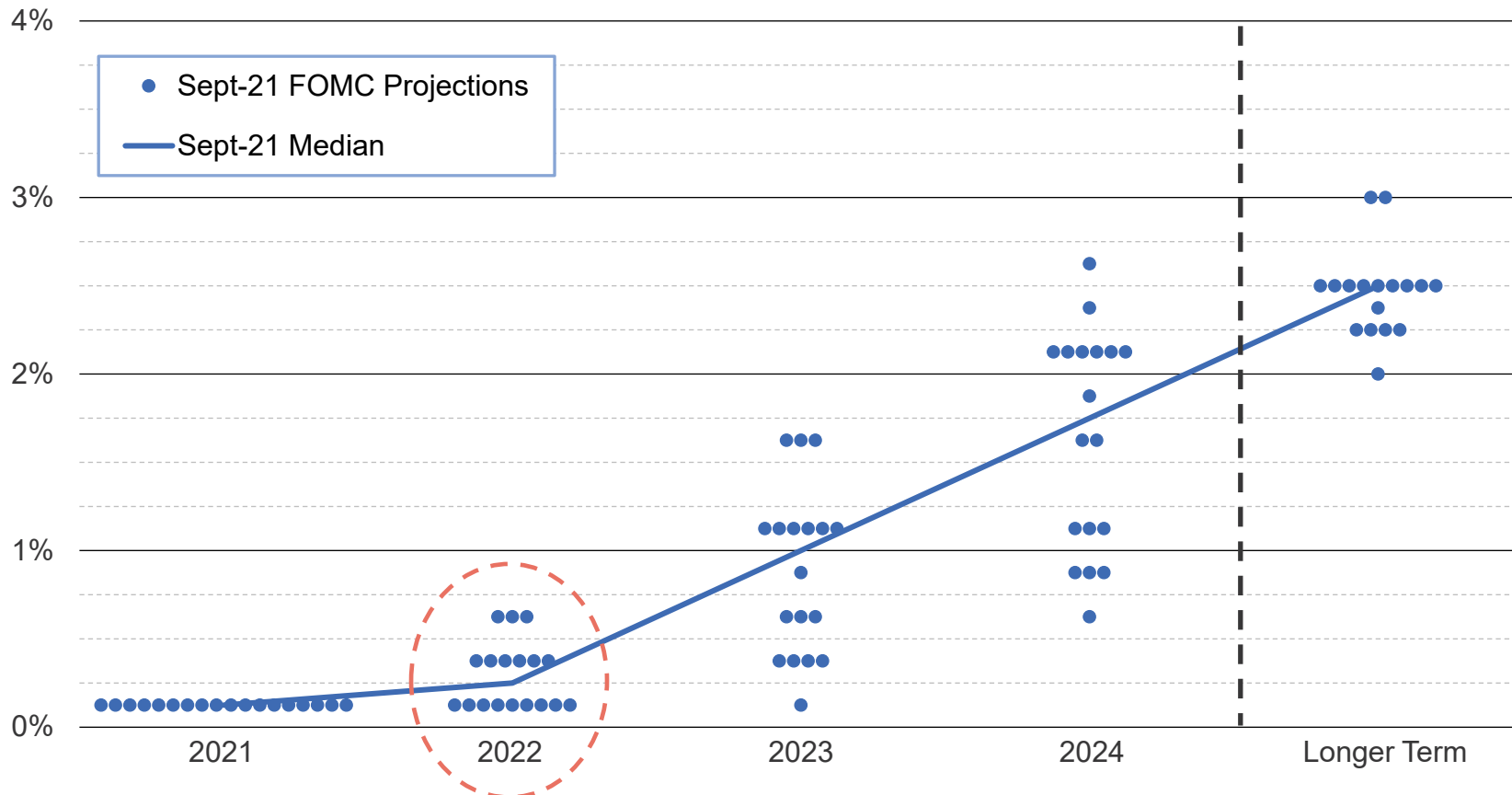
Source: Bloomberg, as of 9/30/2021 (chart). Fed Funds Futures projections as of 9/30/2021.





## Fed's September "Dot Plot" Signals Rate Liftoff in 2022

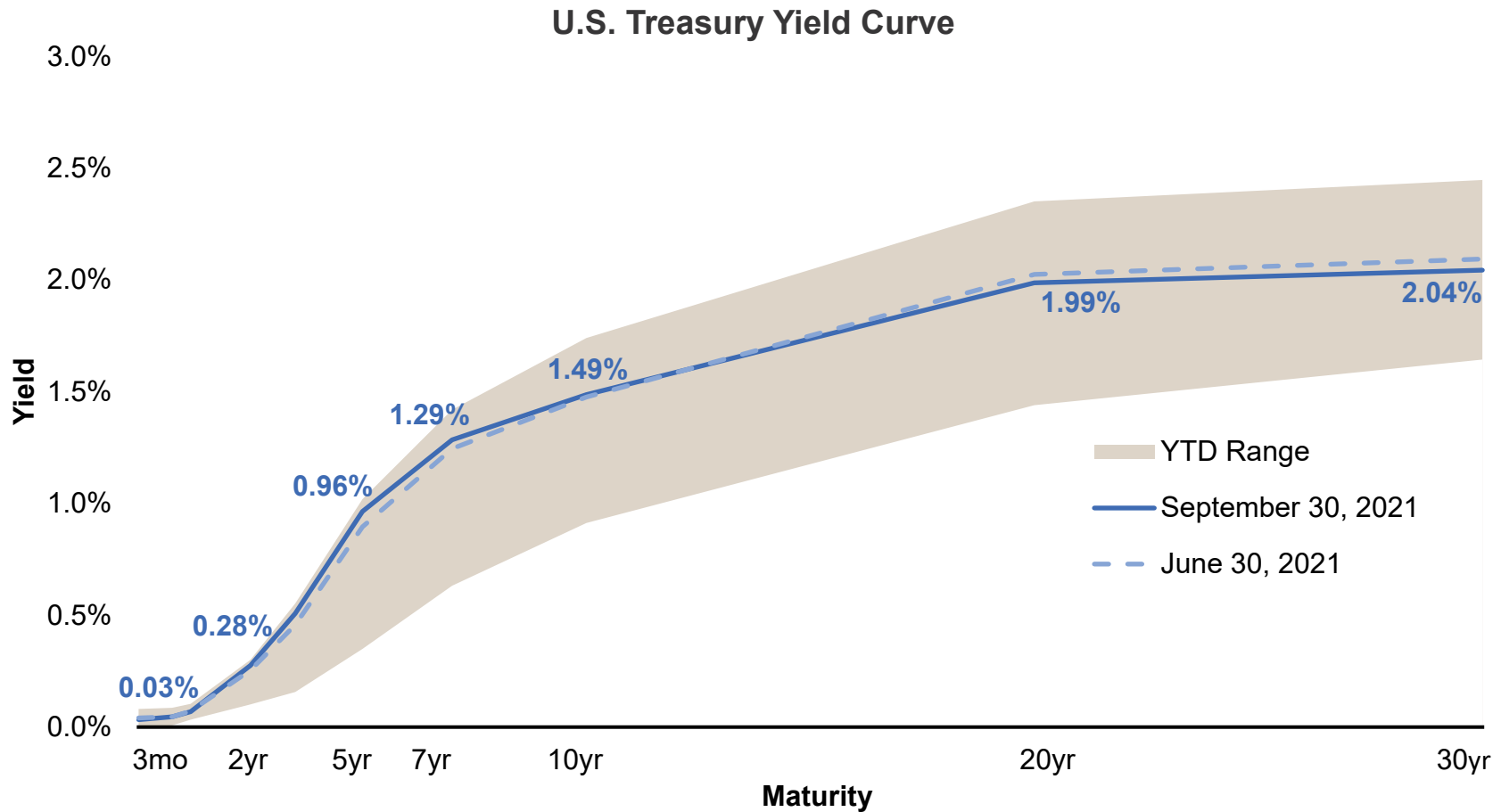
### Fed Participants' Assessments of 'Appropriate' Monetary Policy



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.



## Despite Volatility, Yields Ended Little Changed in Q3



Source: Bloomberg, as of 9/30/2021.



## Treasury Yields Continue to Move Higher

### 2-Year Treasury Yield



### 10-Year Treasury Yield

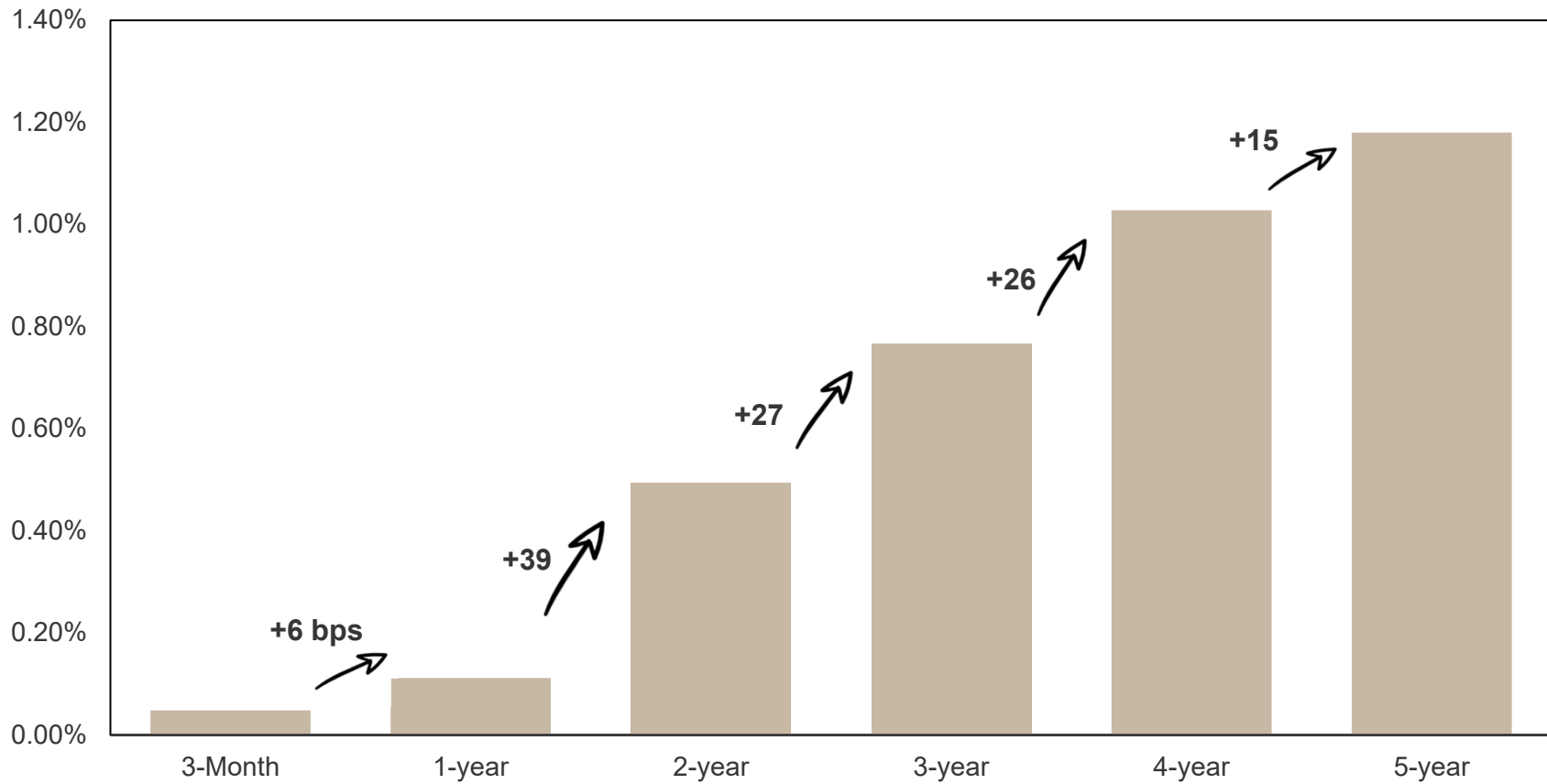


Source: Bloomberg, as of 11/01/2021.



## Steeper Yield Curve Presents Opportunities

Treasury Yield Curve



Source: Bloomberg, as of 10/28/2021.

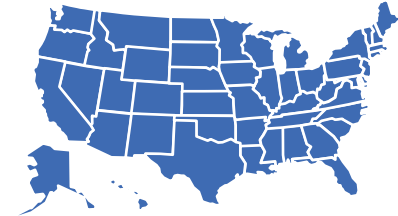


# PFM Update



## The Transaction: U.S. Bank Subsidiary to Acquire PFM Asset Management LLC

- ◆ PFM has entered into a definitive agreement to sell PFM Asset Management LLC (“PFMAM”) along with other associated entities, including PFM Fund Distributors, Inc., to U.S. Bancorp Asset Management Inc. (“USBAM”), a subsidiary of U.S. Bank, N.A.
- ◆ PFMAM will become a wholly-owned subsidiary of USBAM, and will continue to operate as a separate registered investment advisor as “PFM Asset Management, a division of USBAM”
- ◆ Subject to regulatory approval, PFM Fund Distributors, Inc. will remain the broker-dealer affiliate of PFMAM
- ◆ PFMAM and USBAM had combined assets under management and administration of more than \$325 billion



NATIONAL  
PRESENCE  
AND  
COMBINED  
RESOURCES

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**\$325b**

ASSETS UNDER  
MANAGEMENT AND  
ADMINISTRATION



## Disclosures

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# Thank You



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