Monthly Market Review

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

"A familiar conviction that life is beginning over again."

Economic Highlights

- The U.S. economy continued to recover from the COVID-19 recession as the virus infection rate declined from early 2021, while fiscal and monetary stimulus set the pace. Most states are fully reopened which should drive strong gross domestic product (GDP) growth in the second half of 2021.
- U.S. job growth accelerated in June. The economy added 850,000 jobs, with strong gains in leisure and hospitality amid the economy's reopening. So far in 2021, the service sector has led the job recovery, with leisure and hospitality accounting for almost half of the year's payroll gains. The unemployment rate rose slightly to 5.9%.
- Retail sales declined in May following stimulus-fueled spending in earlier months. But, total sales over the trailing three months were 36% more than a year ago. The details reflected the ongoing shift in consumer preferences away from goods and toward services as the economy reopens. Meanwhile, consumer sentiment has improved considerably since the start of this year.
- Inflation continues to run hot, with substantial price increases in energy, housing, commodities and consumer goods. The June Consumer Price Index posted its largest one-month increase since 2008, rising 5.4% over the past year.
- Federal Reserve (Fed) policymakers signaled an intention to accelerate a possible post-pandemic interest rate rise as the U.S. makes strong progress on vaccination efforts and inflation heats up. In its updated June projections, 13 of 18 Fed officials indicated they expect to lift short-term rates by the end of 2023, up from only seven in March. Furthermore, seven officials expect rates to rise by the end of 2022 and none projected any rate changes this year. More immediately, the Fed may soon begin discussing the timing of tapering its large-scale bond purchase program.

Bond Markets

- Despite higher inflation and the possible acceleration of Fed actions to tighten monetary policy, long-term Treasury yields declined — the 10-year Treasury fell 13 basis points (bps) (0.13%) — and the yield curve flattened over the month. The market is grappling with various uncertainties, including concerns about the Delta COVID variant, downward growth momentum, short covering in the bond market, foreign demand, a more hawkish Fed and reduced expectations for additional fiscal stimulus.
- Short-term Treasury yields rose from near zero in response to the Fed's five bps increase in rates, paying for excess reserves and overnight repurchase agreements. As a result, the Fed's overnight reverse repurchase agreement facility surged to a record high of $991 billion at quarter-end. The pull-forward of the Fed rate hike expectations into 2023 pushed the yield on the 2-year Treasury up by 11 bps to 0.25%.
- The rise in short-term government bond yields resulted in negative monthly returns on short-term benchmarks, while the sharp fall in yields on longer-dated Treasuries led to strong absolute returns. The 3-month Treasury index performance was essentially flat in June, while the 10-year Treasury index advanced 1.5%.

Equity Markets

- U.S. equity markets closed out the first half of the year with exceptional gains. The S&P 500 advanced 2.3% in June to bring its year-to-date (YTD) return to 15.2%. In the same period, the Nasdaq advanced an impressive 5.5%, lifting YTD performance to 12.9%. The Dow Jones Industrial Average was marginally positive at 0.02%, leaving YTD returns at 13.8%.
- Developed market equities lagged with the ACWI ex-U.S. index down 0.65% on the month and up 9.16% YTD. However, developing market indices bested returns on U.S. equity indices. The U.S. Dollar Index (DXY) appreciated in June in response to the shift in the Fed's interest rate outlook.

PFM Strategy Recap

- U.S. economic growth has accelerated while the labor market is also gaining strength. Inflation has picked up markedly, but investors largely discount the rise in inflation as transitory.
- Traditional historical analysis would point to an expected curve steepening on the back of economic recovery. Still, the market seems more focused on a return to slow growth in 2022 and 2023 and thus has recently pushed long-maturity rates lower. Our duration stance is neutral as the direction of long-term yields remains uncertain.
- Spreads across other fixed income sectors remain quite narrow. There is limited opportunity to add yield in the Agency or asset-backed sectors.
- Investment-grade (IG) corporate spreads remain near record tights, but there are opportunities for extensions, particularly into new issues.
- Mortgage-backed securities (MBS) spreads widened with concerns about any future Fed tapering and slowing prepayments, which lagged the higher rate move in the first quarter. But, MBS spreads remain narrow on both a nominal and option-adjusted basis.
- In the money markets, short-term rates moved modestly higher after the Fed's technical rate adjustments. Short-term credit remains attractive relative to short-term government securities.

U.S. Treasury Yields

Duration	Jun 30, 2020	May 31, 2021	Jun 30, 2021	Monthly Change
3-Month	0.14%	0.01%	0.04%	0.03%
6-Month	0.16%	0.03%	0.05%	0.02%
2-Year	0.15%	0.14%	0.25%	0.11%
5-Year	0.29%	0.80%	0.89%	0.09%
10-Year	0.66%	1.60%	1.47%	-0.13%
30-Year	1.41%	2.28%	2.09%	-0.19%

Yields by Sector and Maturity as of June 30, 2021

Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.04%	0.03%	0.18%	--
6-Month	0.05%	0.03%	0.20%	--
2-Year	0.25%	0.24%	0.35%	0.21%
5-Year	0.89%	0.89%	1.13%	0.52%
10-Year	1.47%	1.54%	2.05%	1.24%
30-Year	2.09%	2.09%	2.89%	1.79%

Spot Prices and Benchmark Rates

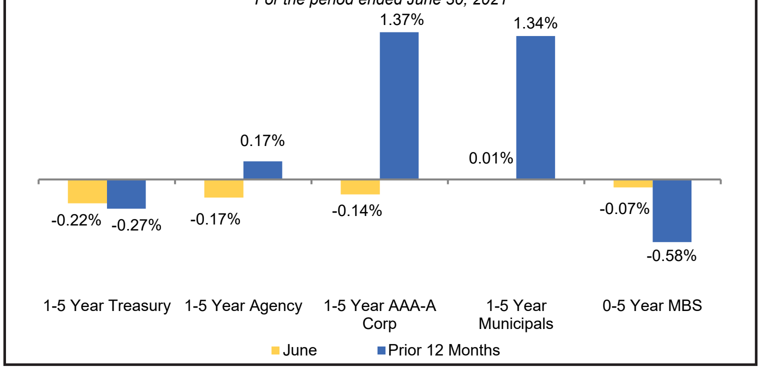
Index	Jun 30, 2020	May 31, 2021	Jun 30, 2021	Monthly Change
1-Month LIBOR	0.16%	0.09%	0.10%	0.01%
3-Month LIBOR	0.30%	0.13%	0.15%	0.02%
Effective Fed Funds Rate	0.08%	0.05%	0.08%	0.03%
Fed Funds Target Rate	0.25%	0.25%	0.25%	0.00%
Gold ($/oz)	$1,801	$1,903	$1,772	-$131
Crude Oil ($/Barrel)	$39.27	$66.32	$73.47	$7.15
U.S. Dollars per Euro	$1.12	$1.22	$1.19	-$0.03

Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	15-Jun	May	-1.3%	-0.8%
Consumer Confidence	29-Jun	Jun	127.3	119.0
GDP Annualized QoQ	24-Jun	1Q T	6.4%	6.4%
PCE Core Deflator YoY	25-Jun	May	3.4%	3.4%
ISM Manufacturing	1-Jul	Jun	60.6	60.9
Change in Non-Farm Payrolls	2-Jul	Jun	850k	720k
Unemployment Rate	2-Jul	Jun	5.9%	5.6%

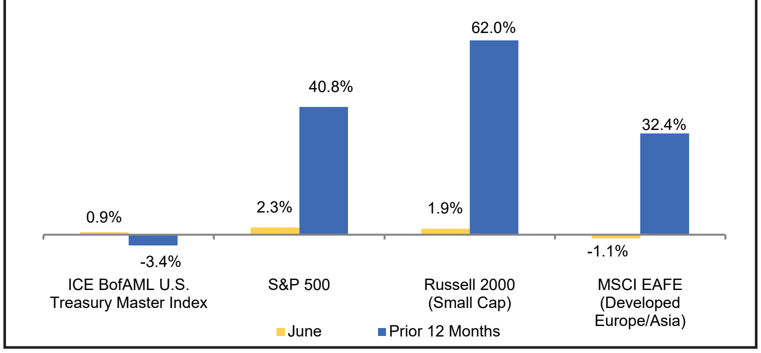
ICE BofAML Fixed Income Index Returns

For the period ended June 30, 2021

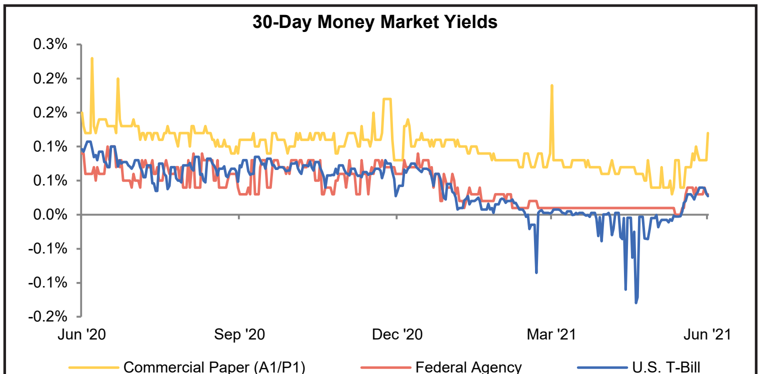


Total Return of Major Indices

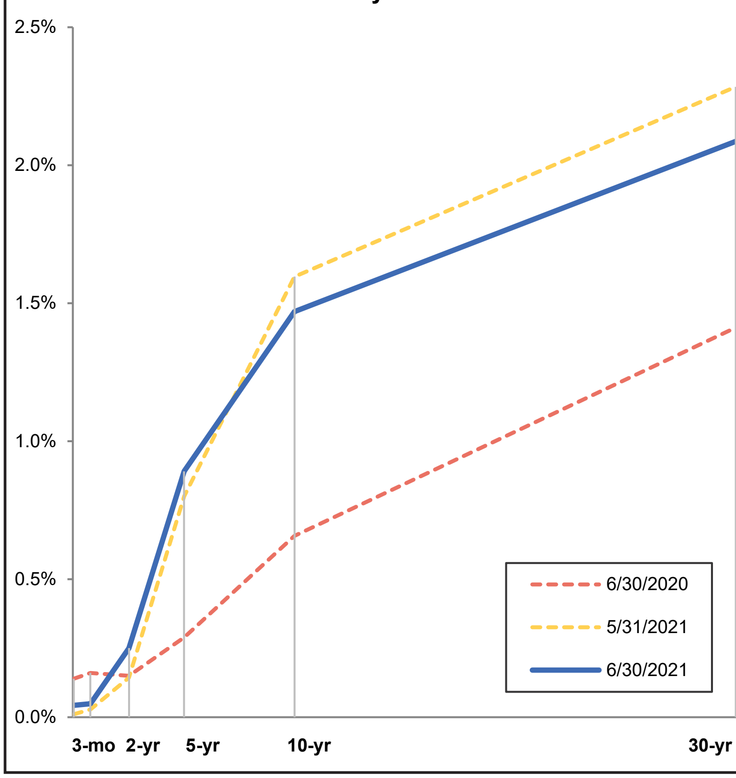
For the period ended June 30, 2021



30-Day Money Market Yields



U.S. Treasury Yield Curve



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