



Monthly Market Update

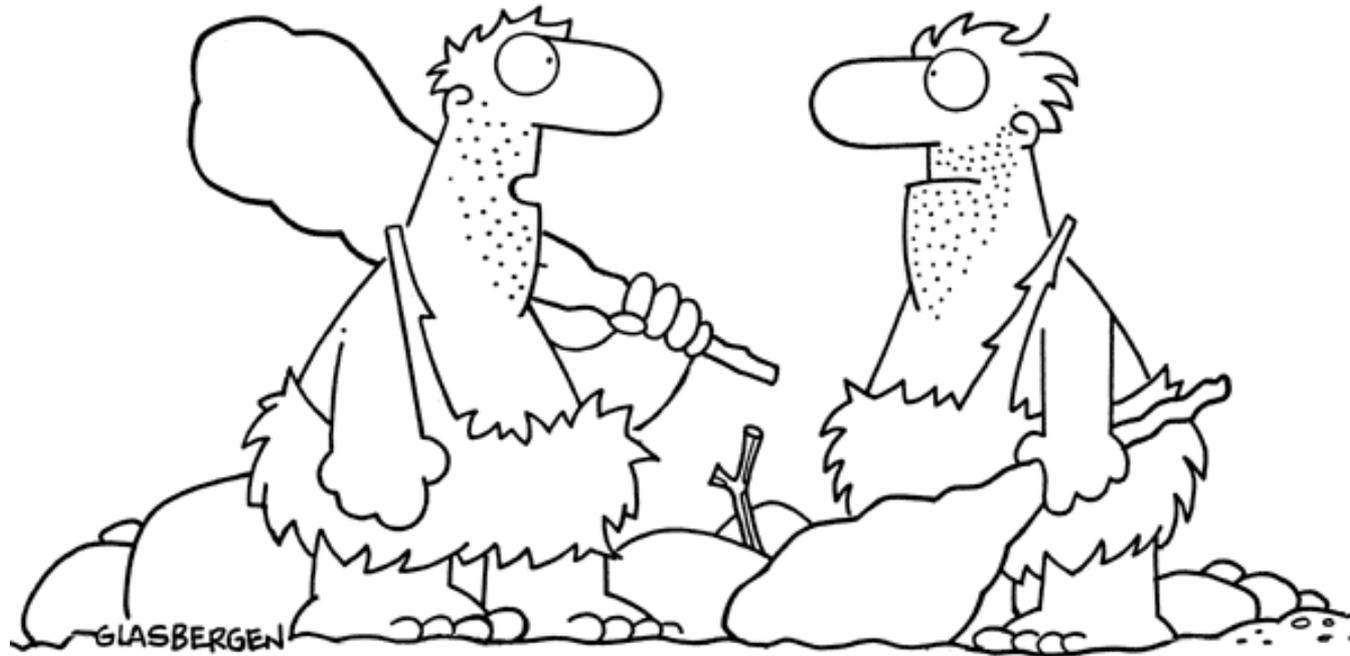
September 2016

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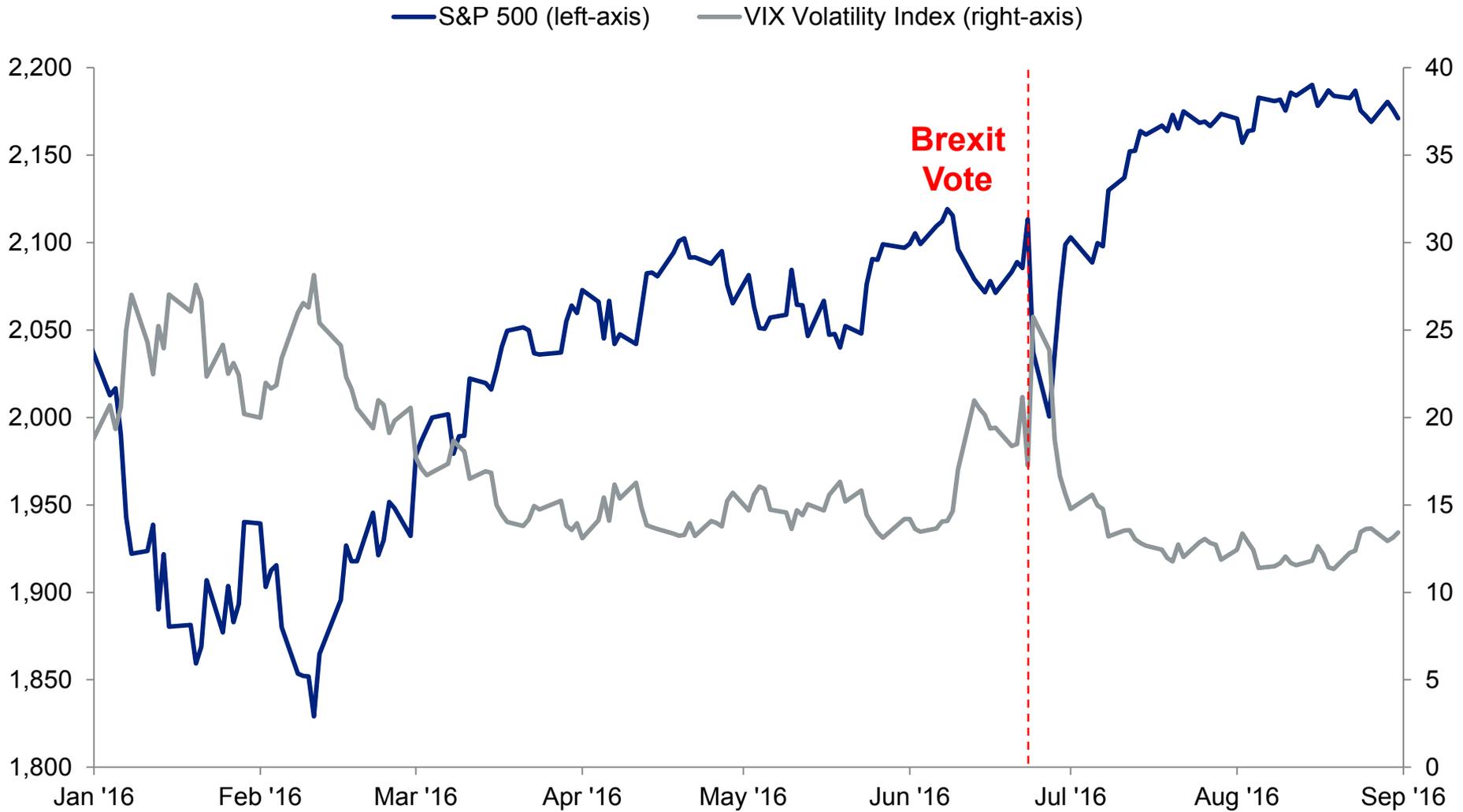


**“I have 40% of my portfolio invested in fire.
I think it’s the technology of the future.”**

Current Market Themes

- The U.S. economy's slow pace of growth continues
- Labor market maintains modest momentum
- The housing market's sizzling summer
- Global central banks remain accommodative
- Financial market volatility falls to cyclical low
- Treasury yield curve: flatness prevails
- All-time high equities

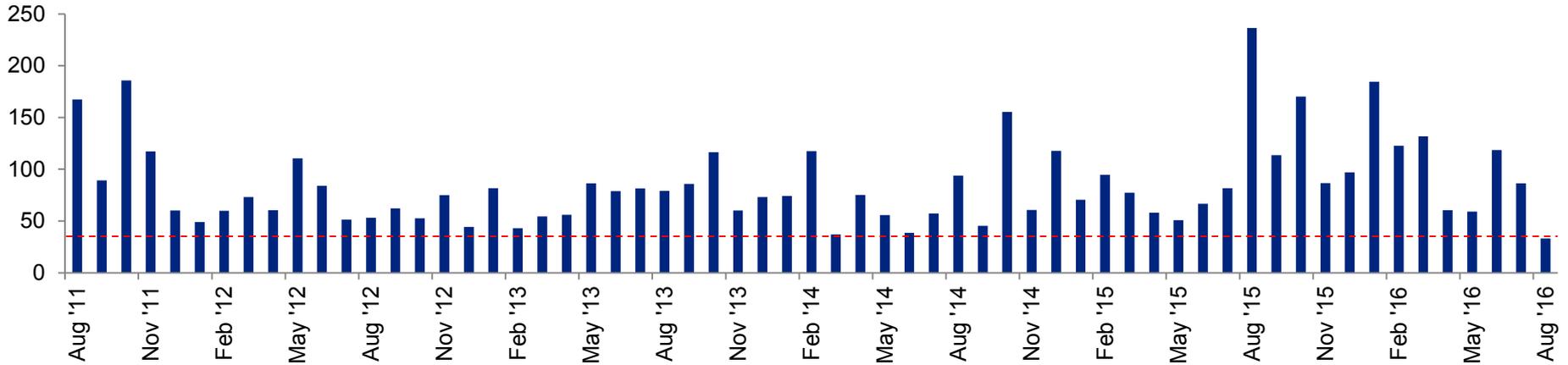
Low Volatility, Record High Equities



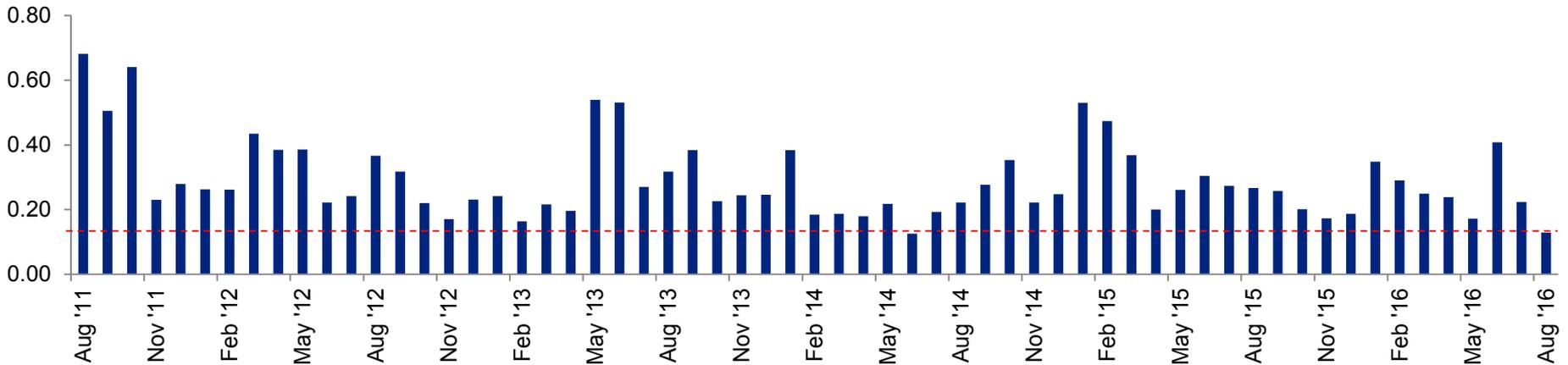
Source: Bloomberg, as of 08/31/16.

Narrowest Trading Range in Over 5 Years

S&P 500 Index High-Low Spread



10 year Treasury High-Low Spread



Source: Bloomberg, as of 08/31/16.

Fed Meeting in Jackson Hole Hints at Rate Hike

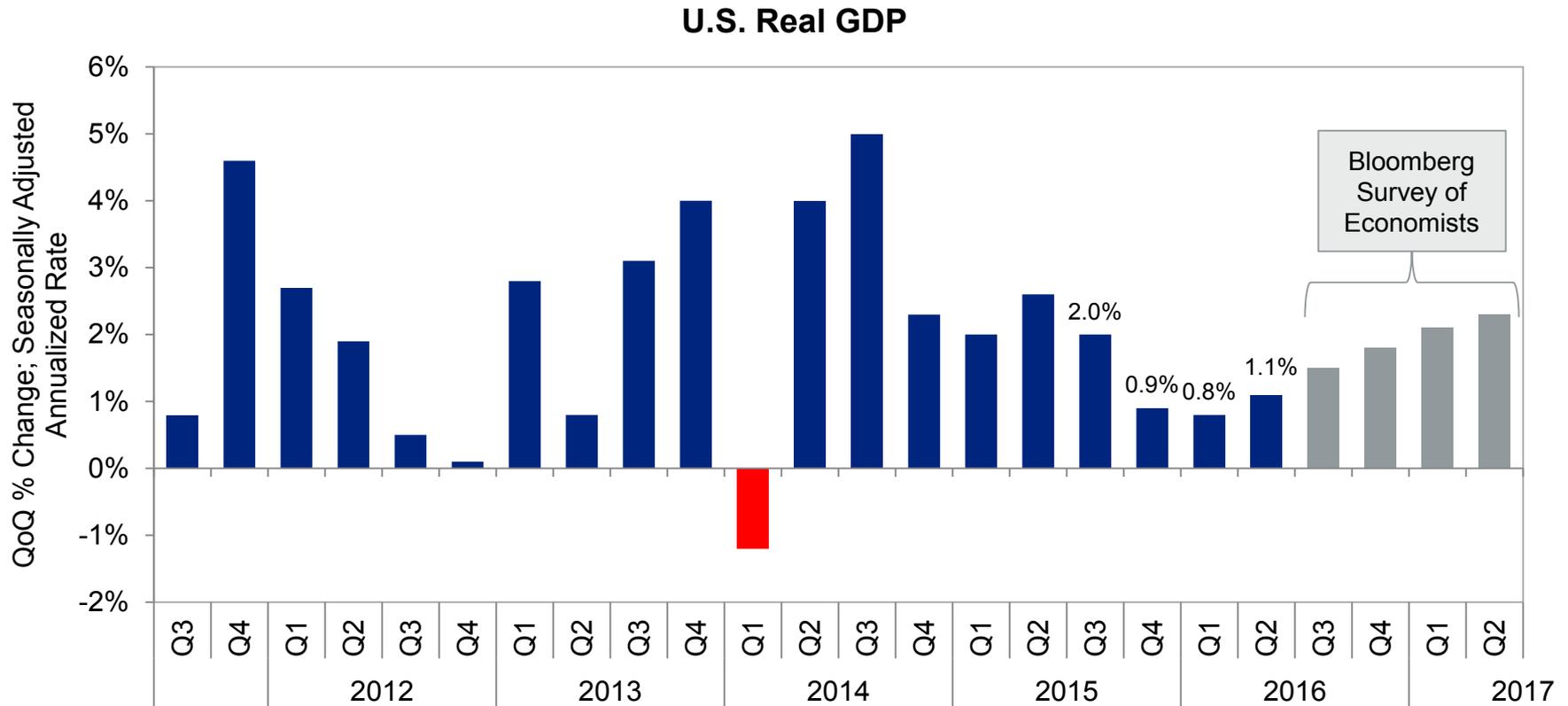
- Several Fed officials suggested that it may be time to hike rates in the coming months after the annual central bankers' August gathering at Jackson Hole:
 - Chairwoman, Janet Yellen: "I believe the case for an increase in the federal funds rate has strengthened in recent months..."
 - Kansas City Fed President, Esther George: "When I look at where we are with the job market, when I look at inflation and our forecast... I think it is time to move."
 - Cleveland Fed President, Loretta Mester: "... it seems like a gradual increase from a very low interest rate is pretty compelling to me."
 - St. Louis Fed President, James Bullard thinks that September might be a good time to raise rates.

Probability of Rate Hike			
Meeting	08/31/16	08/19/16	07/31/16
09/21/16	36%	22%	18%
11/02/16	42%	29%	20%
12/14/16	60%	51%	36%
02/01/17	62%	53%	36%
03/15/17	68%	60%	41%
05/03/17	70%	61%	42%
06/14/17	74%	67%	46%
07/26/17	75%	67%	48%
09/20/17	78%	71%	51%
11/01/17	79%	72%	53%

Source: Bloomberg, as of 08/31/2016.

U.S. Economy on Moderate Growth Track

- U.S. GDP growth was revised down to 1.1% from 1.2% in the second quarter of 2016, according to Bureau of Economic Analysis. Economists subsequently revised their expectations for third quarter growth from 1.8% to 1.5%.
- Second quarter GDP reflected positive contributions from personal consumption, which contributed the most to GDP since the 4th quarter of 2014. Business investment detracted from GDP for the 3rd quarter in a row, the most since the 2nd quarter of 2009, amid a significant decline in inventories.

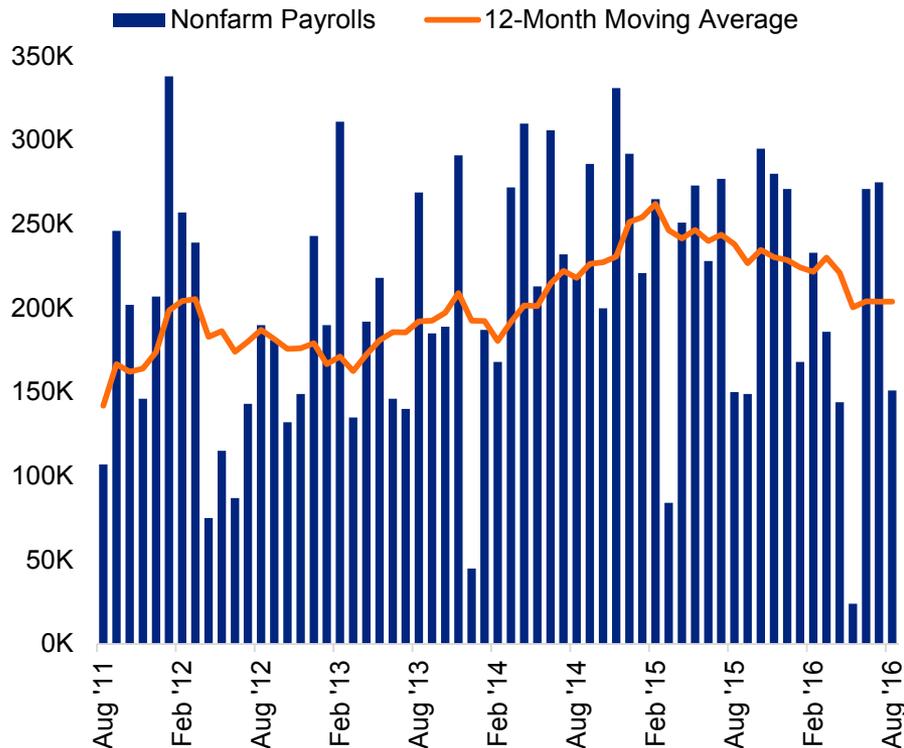


Source: Bureau of Economic Analysis; Bloomberg survey results as of 09/01/2016.

Labor Market Slows Down in August

- The U.S. labor market added only 151,000 jobs in August, short of the 180,000 expectations, although the previous month's number was revised up to 275,000.
- Both the unemployment rate and labor force participation rate remained at 4.9% and 62.8% respectively, suggesting that the economy may be nearing full employment.
- Average hourly earnings inched up by 0.1% in August while rising 2.4% year-over-year.

Monthly Change in Nonfarm Payrolls

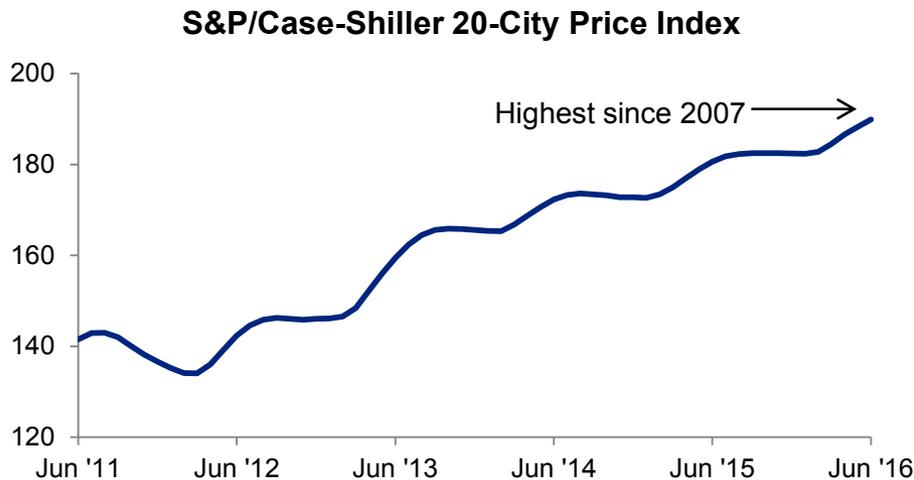
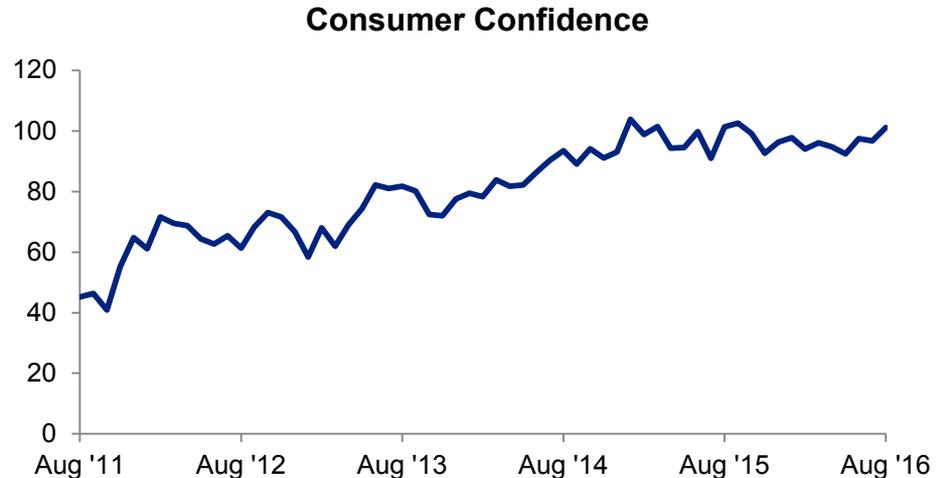
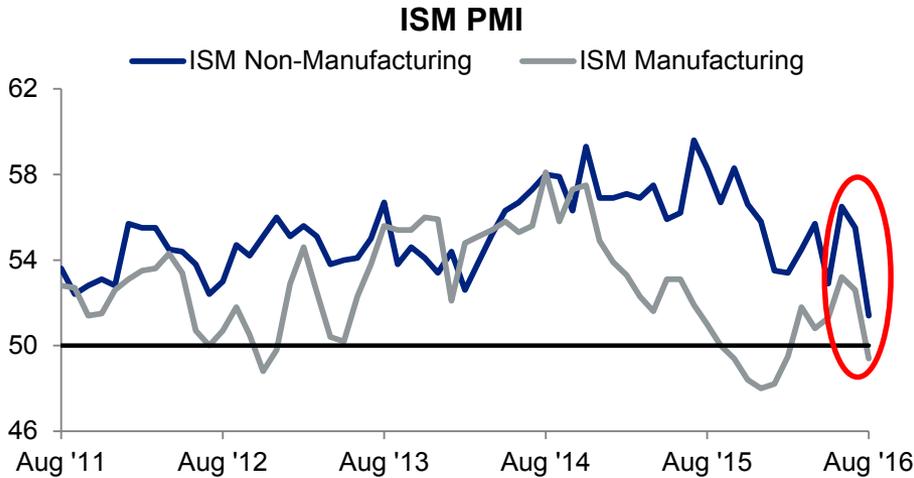


Unemployment Rate



Source: Bureau of Labor Statistics, as of 09/02/2016.

Economic Backdrop

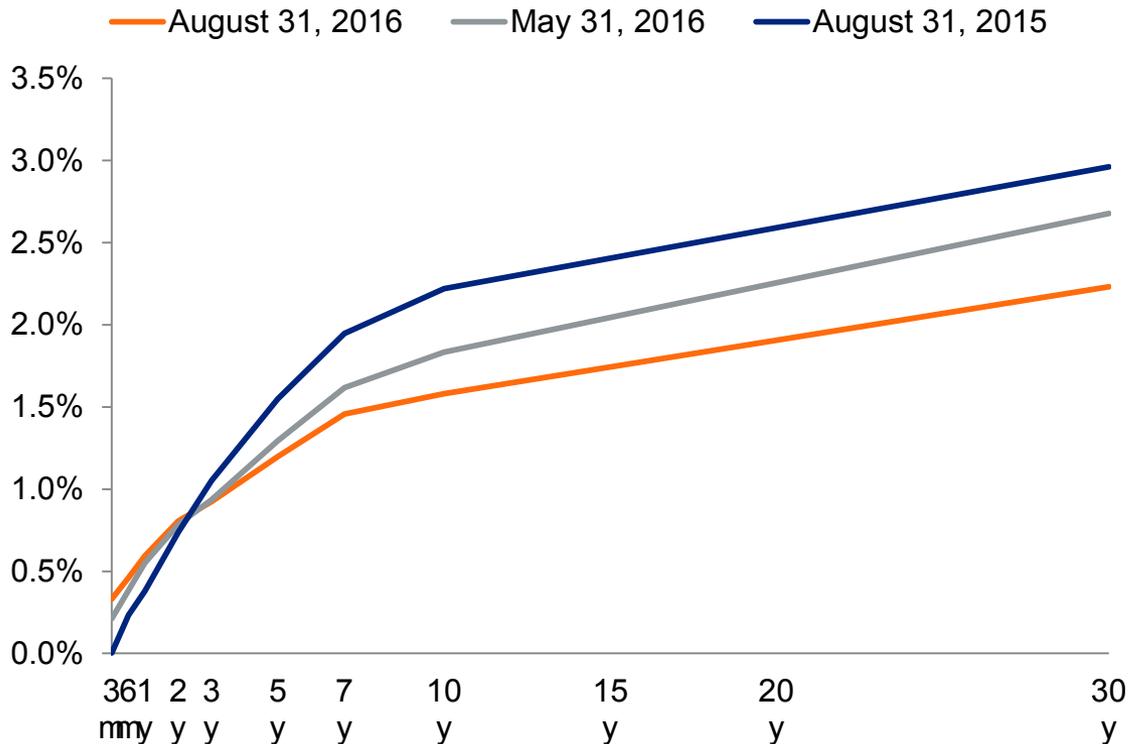


Source: Bloomberg. As of 08/31/2016. SAAR is the seasonally adjusted annualized rate. S&P/Case-Shiller Price Index has its base year in 2000 at 100.

U.S. Treasury Curve Remains Flat

- Longer maturity treasury yields have fallen substantially this year over concerns about global growth and global demand given negative yields abroad.
- On the shorter end of the curve, rates continued to rise in August, as Brexit fears abated and expectations for a rate hike this year inched up following speeches by regional Fed officials.

U.S. Treasury Yield Curve



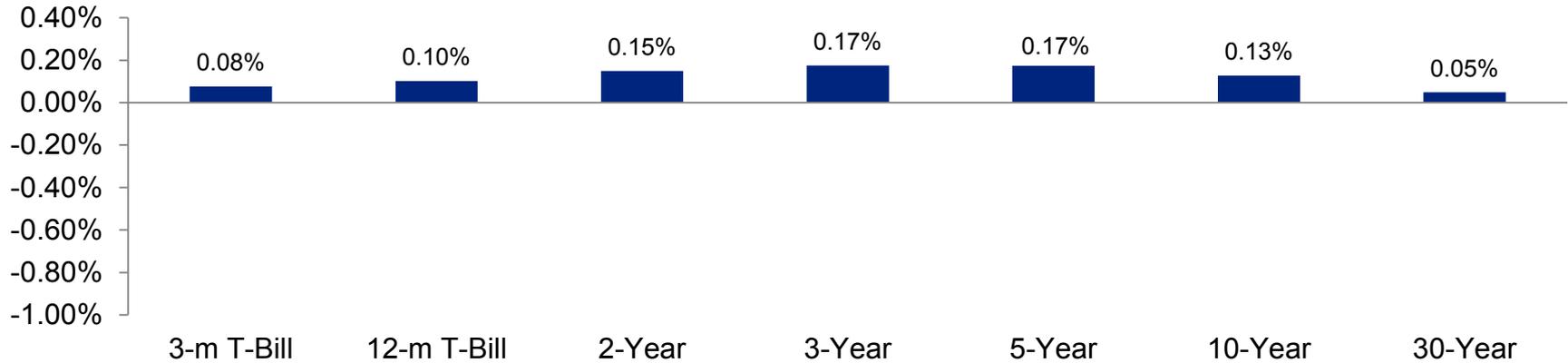
Yield Curve History

	08/31/16	05/31/16	08/31/15
1-Mo.	0.27	0.16	0.00
3-Mo.	0.33	0.21	0.00
6-Mo.	0.46	0.38	0.23
1-Yr.	0.59	0.55	0.38
2-Yr.	0.81	0.78	0.74
3-Yr.	0.92	0.94	1.05
5-Yr.	1.20	1.30	1.55
7-Yr.	1.46	1.62	1.95
10-Yr.	1.58	1.83	2.22
30-Yr.	2.23	2.68	2.96

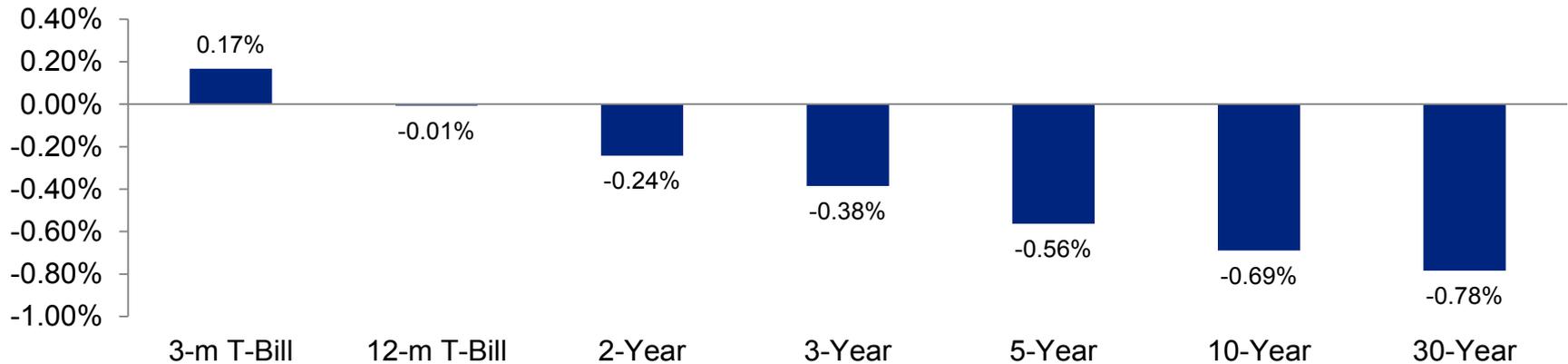
Source: Bloomberg.

U.S. Treasury Yields Rose over the month

1-Month Change in Yield
As of August 31, 2016



YTD Change in Yield
As of August 31, 2016

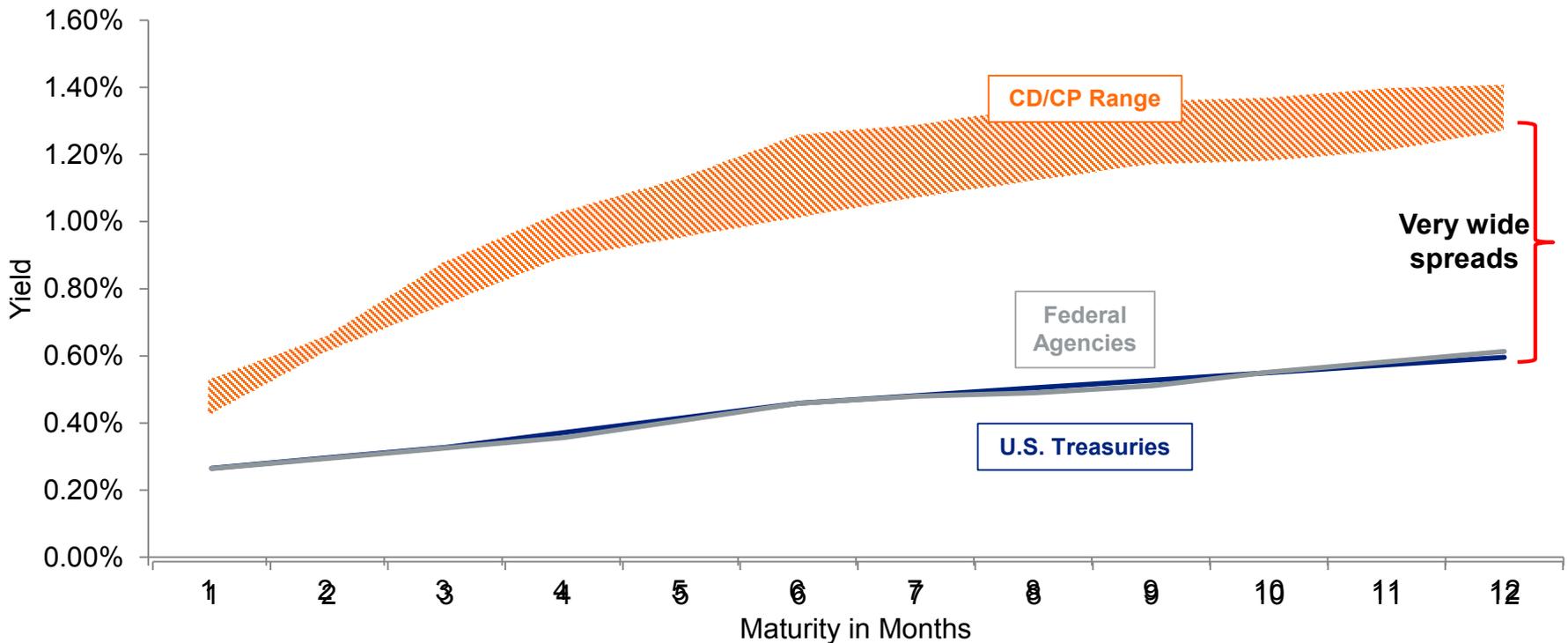


Source: Bloomberg.

Short Maturity Yield Environment

- Yields on commercial paper and negotiable bank CDs remain very attractive alternatives to Treasury Bills and short-term agencies. Spreads remain significantly wider beyond three months amid looming money market reform in October.
- CP/CD rates vary significantly by issuer, credit quality and structure.

**Money Market Yield Curves
August 31, 2016**



Source: Bloomberg, PFMAM. Information on CD/CP ranges are estimates based on independently compiled data.

Yield Environment

As of August 31, 2016

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate	AAA Taxable Municipal
3-Month	0.33%	0.33%	0.65%	0.82%	-
6-Month	0.46%	0.45%	0.68%	1.17%	-
1-Year	0.59%	0.61%	0.91%	1.04%	0.87%
2-Year	0.81%	0.87%	1.11%	1.28%	1.10%
3-Year	0.92%	1.01%	1.30%	1.49%	1.24%
5-Year	1.20%	1.33%	1.67%	1.84%	1.54%
10-Year	1.58%	1.67%	2.44%	2.59%	2.25%

Source: Bloomberg BVAL yield curves for Treasury, Corporate and Municipal yields, TradeWeb for Federal Agency yields. 3 and 6 month corporate yields from commercial paper; A-1+ for AA and A-1 for A.

Fixed-Income Index Returns

			Periods Ended 08/31/2016					
August 31, 2016	Effective Duration	Yield	YTD	1 Month	3 Month	1 Year	3 Years	5 Years
1-3 Year Indices								
U.S. Treasury	1.91	0.80%	1.21%	(0.17%)	0.37%	1.07%	0.88%	0.64%
Agency	1.67	0.92%	1.16%	(0.09%)	0.33%	1.07%	0.97%	0.79%
Corp A-AAA	1.90	1.43%	2.04%	(0.04%)	0.69%	2.36%	1.70%	1.93%
MBS (0 to 3 Years)	2.06	1.33%	1.36%	0.08%	0.61%	2.54%	1.82%	1.37%
Municipals	1.89	0.74%	1.12%	(0.06%)	0.49%	1.24%	1.04%	0.99%
1-5 Year Indices								
U.S. Treasury	2.74	0.93%	2.03%	(0.31%)	0.61%	1.89%	1.55%	1.05%
Agency	2.15	1.00%	1.68%	(0.15%)	0.47%	1.57%	1.52%	1.11%
Corp A-AAA	2.74	1.61%	3.12%	(0.07%)	1.12%	3.49%	2.67%	2.68%
MBS (0 to 5 Years)	3.21	1.82%	2.81%	0.13%	0.99%	3.31%	3.05%	2.25%
Municipals	2.51	0.85%	1.61%	(0.04%)	0.76%	2.03%	1.70%	1.47%
Master Indices (Maturities 1 Year and Greater)								
U.S. Treasury	6.65	1.28%	5.51%	(0.57%)	2.17%	5.46%	4.03%	2.68%
Agency	3.87	1.28%	3.58%	(0.20%)	1.34%	3.53%	3.01%	2.06%
Corp A-AAA	7.21	2.40%	8.03%	0.06%	3.31%	8.84%	5.75%	4.92%
MBS (0 to 30 Years)	3.40	1.91%	3.43%	0.11%	1.14%	3.96%	3.96%	2.59%
Municipals	6.75	1.68%	4.59%	0.23%	1.80%	7.11%	6.88%	5.06%

Source: BofA Merrill Lynch Indices. Returns greater than on year are annualized.

Sector Preferences – September 2016

Sector	PFMAM Investment Preference	Sector Considerations
MMF/LGIP		
Commercial Paper/CDs		<p>CP/CDs CP/CD rates beyond 3 months continue to slowly march higher as upcoming money market reform has diminished demand for maturities beyond the October 14th implementation date of reform. This dynamic has resulted in very attractive yields for investors without near-term liquidity needs.</p>
Treasury: T-Bill T-Note	 	<p>Treasuries New issuance shrinking as federal deficit improves; 1-5 year maturities offer value near the upper end of recent trading ranges, but the yield curve continues to flatten, reducing value in longer maturities.</p>
Agency: <= 3 years > 3 Years	 	<p>Federal Agencies Federal agency spreads were mostly unchanged over the month in the front end (<3yrs) while modestly tighter further out the curve. We continue to find value in the 2 and 3 year maturity securities, as new issue supply has kept spreads near their YTD wides.</p>
Corporates: Financials Industrials	 	<p>Corporates Accommodative central bank policies continue to support corporate spreads. We favor banks as their spreads are more attractive than those of industrials, and they are fundamentally sound. Industrial spreads defy aggressive balance sheet action and M&A risk. Issuer selection is critical.</p>
Municipal Bonds		<p>Municipals Taxables offer value compared to other spread products but remain deal specific with limited availability of inventory.</p>
Asset-Backed Mortgage Backed	 	<p>ABS Economic outlook supports incremental value in AAA prime fixed-rate auto loan, equipment and credit card tranches. Collateral performance remains relatively strong and within rating agency expectations. Swap spread widening has increased relative value in the two to three year part of the curve. The new issue market offers the most attractive avenue to add.</p> <p>MBS Given the recent tightening on both an OAS and nominal basis, the sector is now trading at fair valuation levels. While seasonal supply is starting to slow, performance should remain highly market directional – outperforms with a Treasury market selloff, underperforms with a rally.</p>

Source: PFMAM, as of 08/31/2016. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. Analysis is subject to changes in the market environment, and may vary based on the client's particular circumstances.

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