Monthly Market Review

Fixed Income | March 2024

Information provided by MSDLAF+'s Investment Adviser PFM Asset Management LLC

MSDLAF+
Minnesota School District
Liquid Asset Fund Plus

"Full Steam Ahead"

Economic Highlights

► The market spent the majority of February adjusting its expectations after a higher-than-expected inflation reading and Federal Reserve (Fed) commentary pushed back on the notion that a rate cut was imminent. While the market entered the month thinking the Fed could start easing monetary policy as early as May, Fed funds futures now show it is more likely that the first rate cut will occur in June or July instead. Market expectations are now more closely aligned to Fed forecasts from the December Federal Open Market Committee (FOMC) meeting as it expects three or four total cuts in 2024 — down from the five or six originally priced in for this year.

► While inflation, as measured by the change in the Personal Consumption Expenditures Price Index (PCE), fell on a year-over-year (YoY) basis to 2.4% in January, the month-over-month (MoM) reading of 0.3% showed prices increasing at a faster pace relative to the prior month. Similarly, Core PCE (which excludes volatile food and energy components) increased at a faster pace of 0.4% on a MoM basis but fell slightly on a YoY basis to 2.8%. While still above the Fed's target of 2% on a YoY basis, this marks the thirteenth straight month of falling Core PCE levels.

► Monthly job growth in February beat expectations with a print of 275,000; however, the January and December readings were revised lower, moderating the impact of the release. The unemployment rate remained below 4% for the twenty fourth consecutive month, ticking up to 3.9% from 3.7%, while wage growth continues to outpace inflation.

► The second estimate for Q4 real gross domestic product of 3.2% was in line with the previous initial estimates of 3.3%. Consumer spending was revised upward as the revised Q4 reading of 3.0% continued Q3's torrid 3.1% pace.

► Retail sales (which do not adjust for inflation) dropped by 0.8% month-over-month in January, although this may be attributable to the combination of a cold January and seasonality adjustments on the heels of the holiday shopping season.

► Home prices hit an all-time high as the S&P/Case-Shiller 20-City Composite Home Price Index increased by 8.8% YoY. Existing home sales in January remained near multi-year lows while new home sales ticked modestly higher. The combination of limited supply and high mortgage rates continues to impact housing affordability.

Bond Markets

► U.S. Treasury yields on maturities greater than one year increased through February as markets adjusted their rate cut assumptions. Short-term yields remained above 5% as Fed rate policy was unchanged, resulting in the yield curve remaining deeply inverted.

► The yields on benchmark 2-, 5-, and 10-year U.S. Treasuries jumped over the month, ending at 4.62%, 4.24%, and 4.25%, respectively, representing increases of +41, +40, and +34 basis points for the month.

► The increase in yields over the month resulted in bond returns that were firmly negative with the longest-duration strategies performing the worst. The ICE BofA 2-, 5-, and 10-year Treasury indices returned -0.47%, -1.45%, and -2.06%, respectively.

Equity Markets

► The wave of positive sentiment remained through February and equity markets continued their stellar pace. The S&P 500 Index broke the heady 5,000 mark for the first time in the index's history, ending the month 5.3% higher. The NASDAQ and Dow Jones Industrial Average also breached all-time highs, ending the month 6.2% and 2.5% higher. International equites (as measured by the MSCI ACWI ex US) finished higher by 2.5%, more than offsetting the lackluster start to the new year.

► The dollar index (DXY) continued to increase by 0.7% in February, as markets digested the impact of strong economic data releases throughout the month and a return to the higher-for-longer rhetoric.

PFMAM Strategy Recap

► We continue to prefer a neutral duration stance relative to benchmarks as the risk from falling yields now outweighs the potential for further yield increases.

► Spreads on federal agencies and supranationals remained anchored over the month. While agency debt issuance has been light over the past several months, record issuance from supranationals to kickstart the year was met with strong demand.

► Momentum from the broader positive sentiment continued in investment grade corporates as the sector generated positive excess returns and buoyed portfolio performance. Spreads on most corporate issuers have now broken through their 12-month lows. As a result, we may use this as an opportunity to trim allocations and exercise patience for better entry points. Year-to-date issuance in the sector has occurred at a record pace, presenting sporadic opportunities to participate in new issues with attractively priced concessions to the secondary market.

► Mortgage-backed securities (MBS) underperformed through February, largely on the heels of the marked back-up in longer-term Treasury yields. Agency-backed CMBS generated positive excess returns for the month, which proved to be an exception relative to more rate-sensitive residential MBS.

► Asset-backed securities (ABS) performed exceedingly well as spreads continued to grind tighter. Issuance remains quite robust and new deals have been met with strong demand and oversubscriptions, contributing to the spread tightening observed over the month.

► Short-term money markets continue to benefit from high yields and a patient Fed. Short-term credit remains an attractive alternative to similar maturity U.S. Treasuries, despite modestly narrower spreads over the past several months.

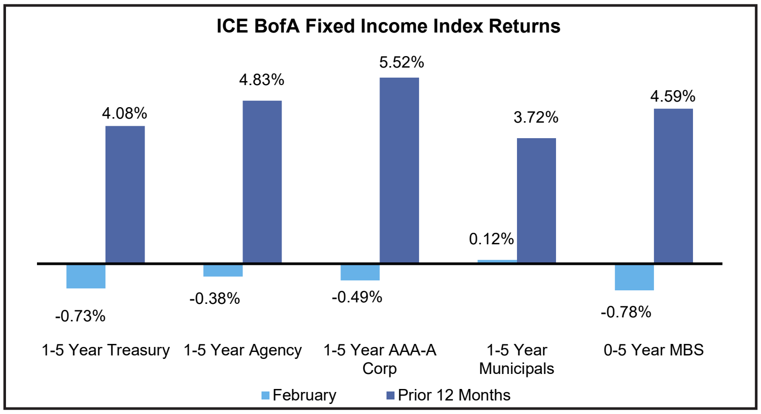
*This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the investment objectives, risks, charges and expenses before investing in any of the Fund's series. This and other information about the Fund's series is available in the Fund's current Information Statement, which should be read carefully before investing. A copy of the Fund's Information Statement may be obtained by calling 1-888-4-MSDLAF or is available on the Fund's website at www.msdlaf.org. While the MSDLAF+ Liquid Class and MAX Class seek to maintain a stable net asset value of $1.00 per share and the MSDLAF+ TERM series seeks to achieve a net asset value of $1.00 per share at its stated maturity, it is possible to lose money investing in the Fund. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Fund are distributed by **PFM Fund Distributors, Inc.**, member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is an affiliate of PFM Asset Management LLC.*

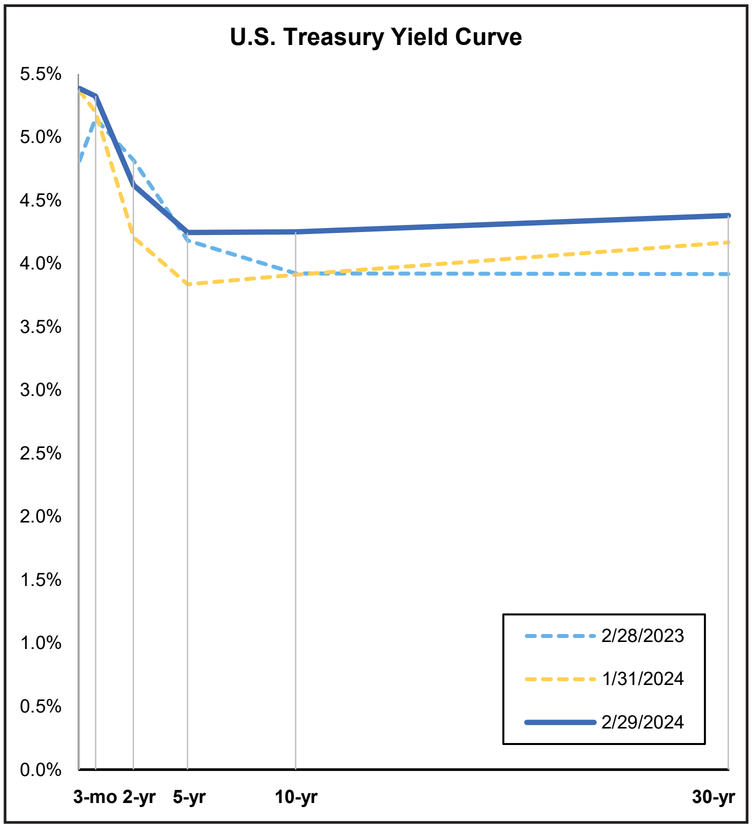
U.S. Treasury Yields				
Duration	Feb 28, 2023	Jan 31, 2024	Feb 29, 2024	Monthly Change
3-Month	4.81%	5.37%	5.38%	0.01%
6-Month	5.15%	5.20%	5.33%	0.13%
2-Year	4.82%	4.21%	4.62%	0.41%
5-Year	4.18%	3.84%	4.25%	0.41%
10-Year	3.92%	3.91%	4.25%	0.34%
30-Year	3.92%	4.17%	4.38%	0.21%

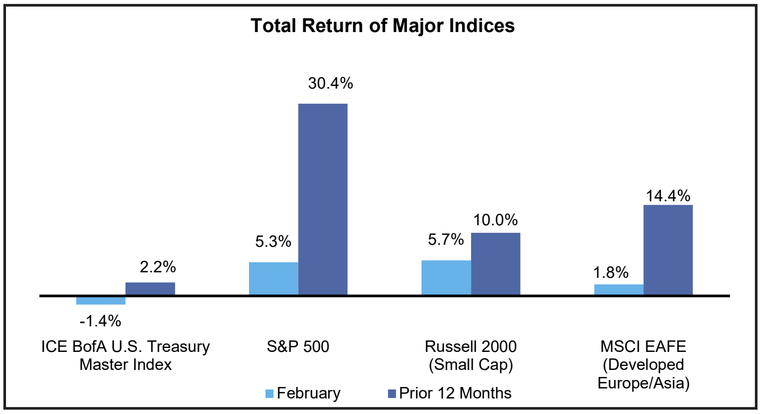
Yields by Sector and Maturity				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	5.38%	5.39%	5.55%	-
6-Month	5.33%	5.33%	5.54%	-
2-Year	4.62%	4.63%	5.04%	2.71%
5-Year	4.25%	4.26%	4.90%	2.38%
10-Year	4.25%	4.31%	5.11%	2.54%
30-Year	4.38%	-	5.40%	3.47%

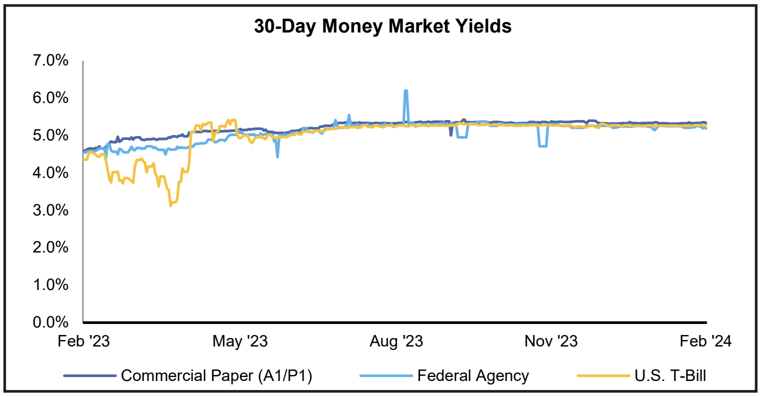
Spot Prices and Benchmark Rates				
Index	Feb 28, 2023	Jan 31, 2024	Feb 29, 2024	Monthly Change
1-Month LIBOR	4.67%	5.44%	5.44%	0.00%
3-Month LIBOR	4.97%	5.58%	5.60%	0.02%
Effective Fed Funds Rate	4.57%	5.33%	5.33%	0.00%
Fed Funds Target Rate	4.75%	5.50%	5.50%	0.00%
Gold ($/oz)	$1,837	$2,048	$2,055	$6
Crude Oil ($/Barrel)	$77.05	$75.85	$78.26	$2.41
U.S. Dollars per Euro	$1.06	$1.08	$1.08	$0.00

Economic Indicators				
Indicator	Release Date	Period	Actual	"Survey (Median)"
CPI YoY	13-Feb	Jan	3.10%	2.90%
Retail Sales Advance MoM	15-Feb	Jan	-0.80%	-0.20%
GDP Annualized QoQ	28-Feb	4Q S	3.20%	3.30%
Existing Home Sales MoM	26-Feb	Jan	3.10%	4.90%
PCE YoY	29-Feb	Jan	2.40%	2.40%
ISM Manufacturing	1-Mar	Feb	47.8	49.5
U. of Mich. Consumer Sentiment	1-Mar	Feb F	76.9	79.6









Source: Bloomberg. Data as of February 29, 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.

PFM Asset Management LLC ("PFMAM") is an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. ("USBAM"). USBAM is a subsidiary of U.S. Bank National Association ("U.S. Bank"). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM.

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE