



Northern California Power Agency

May 2023

Finance Committee Materials

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Report on Current Financial Market Conditions or Issues

Data, rates, and related statistics and charts are as of May 1, 2023, unless otherwise indicated



Market Overview Since February 7th

Date	DJIA	10-Yr MMD	10-Yr Tsy	30-Yr MMD	30-Yr Tsy
7-Feb	34,157	2.23%	3.67%	3.24%	3.72%
9-Mar	32,255	2.61%	3.98%	3.58%	3.88%
Δ	-1,902	0.38%	0.31%	0.34%	0.16%

- In February, AAA MMD and Treasuries saw continued increases, as data releases throughout the month reinforced expectations that the Fed would continue to raise rates

Date	DJIA	10-Yr MMD	10-Yr Tsy	30-Yr MMD	30-Yr Tsy
9-Mar	32,255	2.61%	3.98%	3.58%	3.88%
13-Apr	34,030	2.08%	3.45%	3.16%	3.69%
Δ	1,775	-0.53%	-0.53%	-0.42%	-0.19%

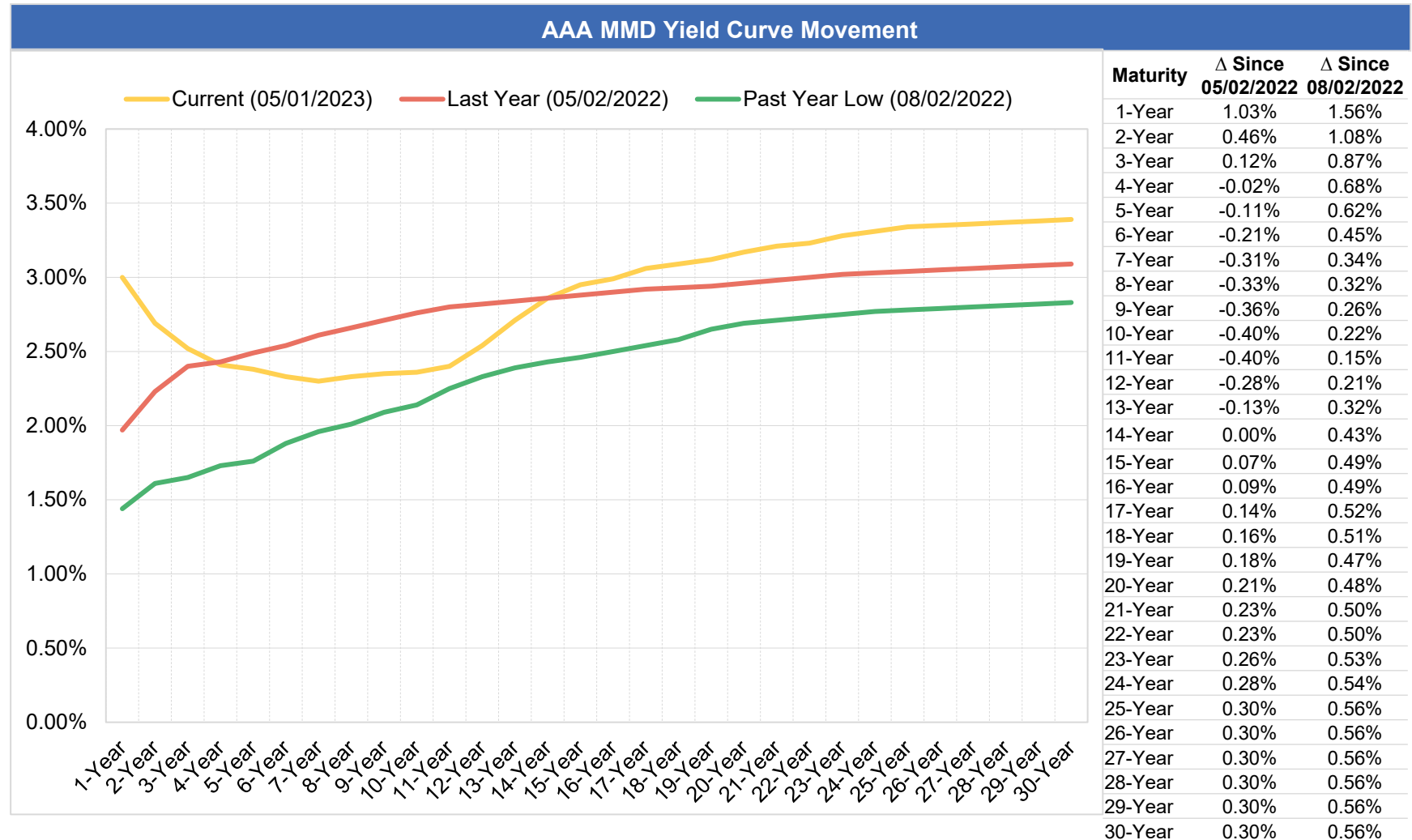
- On 3/10, the shutdown of Silicon Valley Bank caused Treasuries to drop dramatically in an investor flight-to-safety
 - Continued bank troubles the following week, with the collapse of Credit Suisse and its emergency purchase by UBS, furthered the downward pressure on rates
 - In the latter half of March, Deutsche Bank saw their credit default swaps surging to their highest level and shares dropping significantly, prompting another flight-to-quality
- At the 3/22 FOMC, the Fed implemented another 25 bps rate hike, bringing the Fed Funds rate to 4.75 – 5.00%

Date	DJIA	10-Yr MMD	10-Yr Tsy	30-Yr MMD	30-Yr Tsy
13-Apr	34,030	2.08%	3.45%	3.16%	3.69%
1-May	34,052	2.36%	3.59%	3.39%	3.84%
Δ	22	0.28%	0.14%	0.23%	0.15%

- By the week of 4/17, Municipal/Treasury ratios reached close to its lowest levels since 2021, resulting in a large corrective increase of AAA MMD of 18 bps for the 1-year yield and 15 bps across the rest of the curve on 4/18
- Comments in April from Fed Reserve Governor Waller and New York Fed President Williams that inflation is still too high and that the Fed should hold policy tight backed market expectations of a 25 bps hike at the May FOMC, despite the failure of First Republic bank and subsequent acquisition by JP Morgan



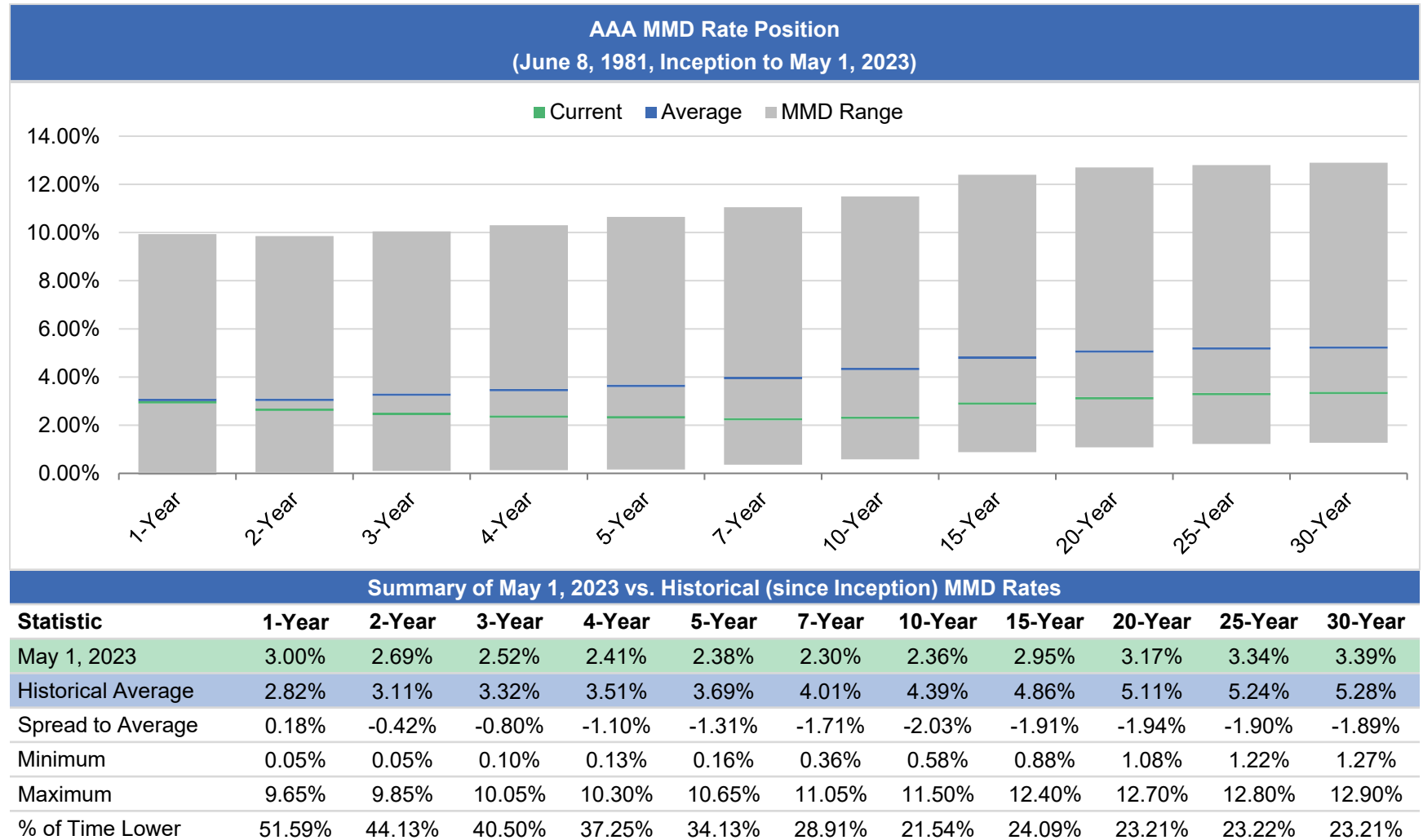
Recent AAA MMD Yield Curve Movement



Source: Bloomberg, PFM Research



AAA MMD Position Since Inception

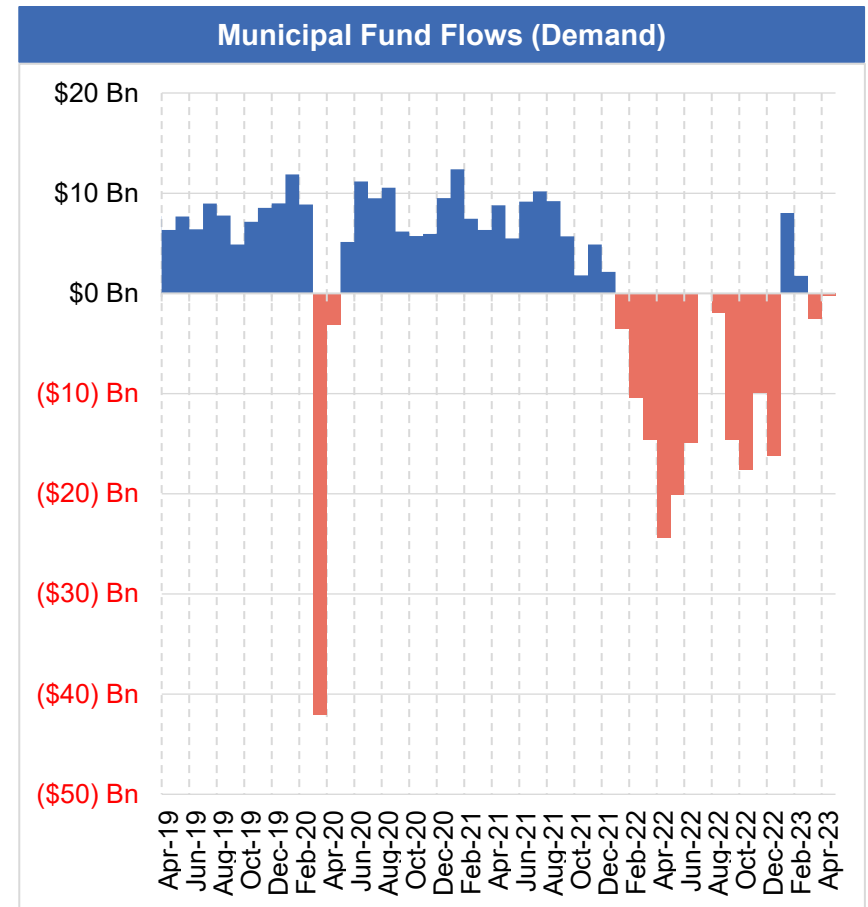
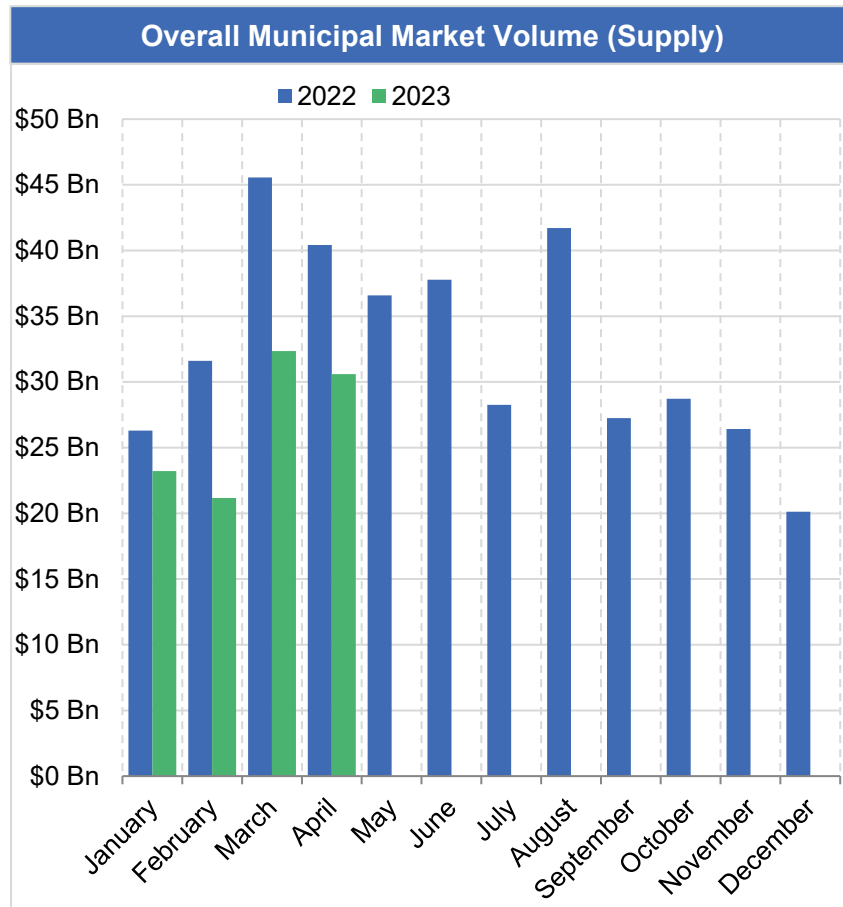


Source: Bloomberg, PFM Research



Municipal Market Supply & Demand

- The month of April briefly saw positive net municipal fund flows the week of 4/12, but net municipal fund flows have since become negative again. New issuance volume was down 24.3% year-over-year in April, and year-to-date new issuance volume was 25.4% lower than 2022 issuance through April.



Source: Bond Buyer, Investment Company Institute



Interest Rate Forecasts

- Market participants were pricing in a 25 bps rate hike ahead of the May FOMC

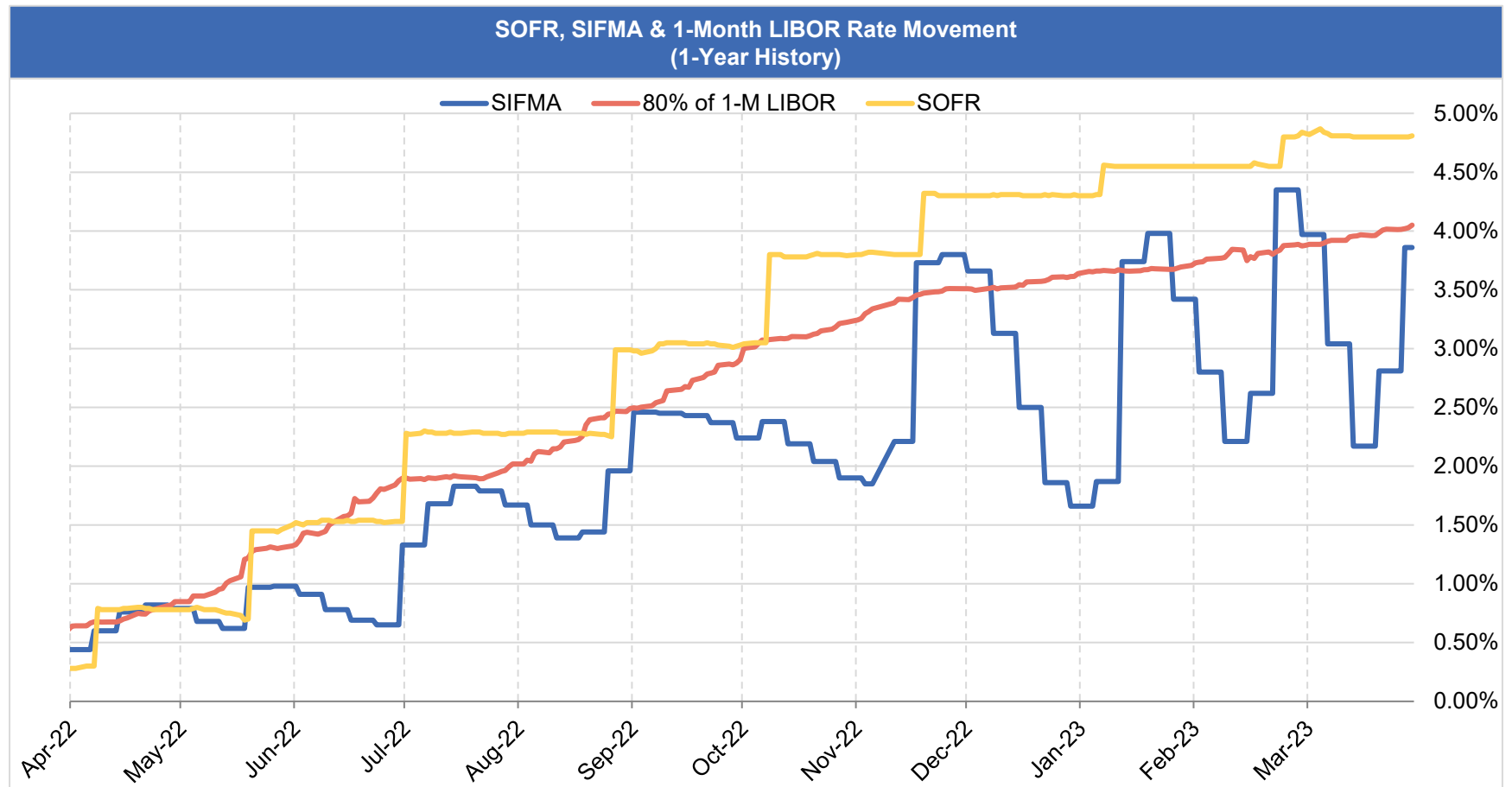
The Street's Interest Rate Forecast (As of May 1, 2023)								
Average Forecasts	Current	Q2 23	Q2 Δ vs. Current	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24
30-Year UST	3.76%	3.79%	0.03%	3.76%	3.68%	3.65%	3.63%	3.60%
10-Year UST	3.52%	3.59%	0.07%	3.54%	3.44%	3.41%	3.36%	3.31%
2-Year UST	4.14%	4.19%	0.05%	4.01%	3.75%	3.55%	3.36%	3.22%
3M SOFR	5.09%	5.16%	0.07%	5.11%	4.86%	4.46%	4.00%	3.64%
Fed Funds Target Rate	4.75%	5.00%	0.25%	4.96%	4.83%	4.45%	4.00%	3.58%
<i>Fed Funds Δ Since February Meeting</i>	<i>0.50%</i>	<i>0.20%</i>		<i>0.24%</i>	<i>0.34%</i>	<i>0.41%</i>	<i>0.37%</i>	<i>0.31%</i>

Source: Bloomberg



SOFR, SIFMA & 1-Month LIBOR Rate Movement

- SIFMA has continued to fluctuate in responses to Fed rate hike, reflecting the relatively smaller pool of investments the index is based off. Meanwhile, SOFR continues to make stepped increases following Fed rate hikes while 1M LIBOR has increased steadily.



Source: Bloomberg, PFM Research



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