



Daily Market View

Tuesday, February 19, 2019

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.98	3.03
10-year UST	2.65	2.70
5-year UST	2.47	2.52
2-year UST	2.50	2.53
6-Mo UST	2.50	2.51
3-Mo UST	2.42	2.43
10-year TIPS	0.78	0.84
10-year Corp	4.27	4.30
10-yr AAA Muni	2.16	2.18
3M LIBOR	2.40	2.68
Fed Funds	2.50	2.50
Prime Rate	5.50	5.50
CPI (YoY)	1.60	2.90
NASDAQ*	7,472	7,420
DJIA*	25,883	25,543
S&P 500*	2,776	2,753
Oil	\$55.96	\$53.90
Gold	\$1,329.10	\$1,310.80
Copper	\$283.20	\$277.30
Yen / US Dollar	¥110.66	¥111.01
Euro / \$US	€ 1.1296	€ 1.1261

Link: [Bloomberg Economic Calendar](#)

*Previous Day

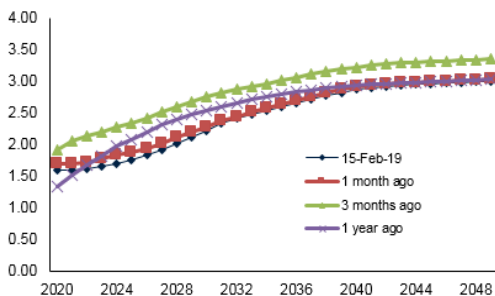
Client Friendly Publications

Municipal Market Insight [February 2019](#)

Global Insight Weekly [February 14, 2019](#)

Global Insight Monthly [February 2019](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

The record Treasury shorts that drove the 10 year yield to 3.244% in October are increasingly turning into longs.

Even as the 10 year yield falls toward 2.50%, shorts continue to unwind their positions. The 2.50% level has held thus far, but should traders begin to build up net long positions, we could see that level broken in the weeks ahead, putting further downward pressure on rates.

Treasury Shorts Give Up Even As 10-Year Nears 2.60%

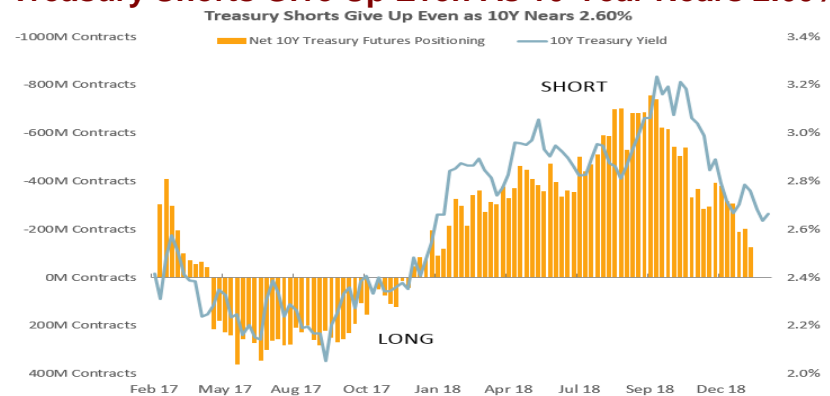


Chart Source: Bloomberg, RBC Wealth Management

Munis

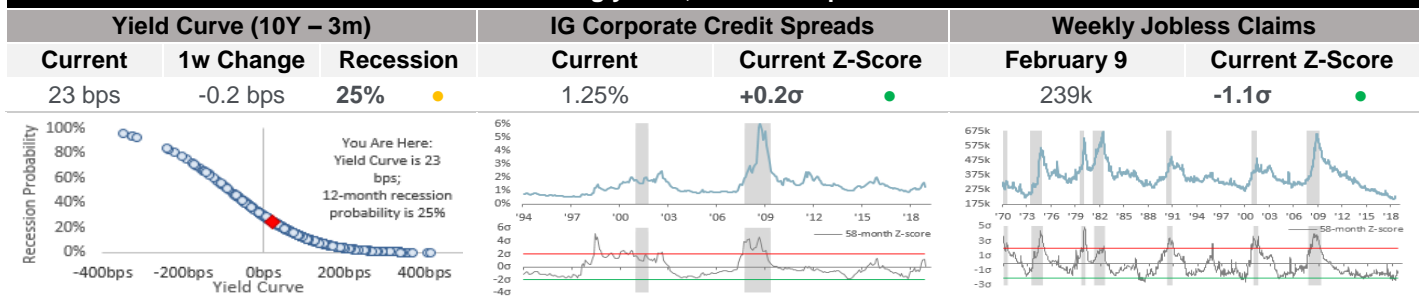
Munis traded higher the better part of last week, ending the week unchanged. The muni Bloomberg Barclays Index is returning 1.05% YTD.

New York Governor Andrew Cuomo is proposing major cuts to state Medicaid funding to help offset the \$3.8B decline in estimated income tax revenue in the current and next fiscal year.

The New York City-area gateway rail project, once scuttled by former NJ Governor Christie, has been revived. A financial hurdle was removed when it was determined federal loans could be used to construct the project.

Strategy & Economics

Recession Watch Dashboard – Yield curve flashing yellow, but credit spreads & the labor market look solid



Our Thoughts: The yield curve curve is back in flattening mode after steepening to start the year, after reaching a YTD high of 38 bps. **Investment grade credit spreads** have tightened from the January high of 157bps along with the equity market rally, a sign that credit markets are pricing reduced recession risk; **jobless claims** remain low, but have been trending higher since Sept.

RBC Wealth Management Global Portfolio Advisory Committee: Economic Indicator Scorecard



Source: RBC WM, Bloomberg; Recession probability based on NY Fed Yield Curve Model; Z-score measures significance of changes in trend over specified periods

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Housing Mkt Sent.	Feb	59	-	58	<ul style="list-style-type: none"> The lone data release is today's NAHB Housing Market Index. It has been in steady decline since Dec 2017, partly due to rising mortgage rates and partly due to slowing home sales. Over that period, the annual pace of new home sales has slowed from ~660k to 610k. We haven't had new home sales data for a while given the government shutdown, but data for December is expected on March 5. Mortgage rates are still somewhat rich to 10Y Treasuries, with a 10Y at 2.65%, the 30Y mortgage rate should be closer to 4.2% based on the past two years, compared to 4.4% currently. So there may be room for mortgage rates to fall further.
Chart: Will pullback in mortgage rates help housing market?					

Source: RBC WM, Bloomberg

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Empire Manufacturing	Feb	7.0	8.8	3.9	<p>Consumer Confidence Begins Recovery</p> <ul style="list-style-type: none"> Last week we highlighted the correlation between consumer spending and stock market expectations. Confidence on Friday recovered modestly for the first estimate of February, partly fueled by the +11% run in stocks to start the year. It was mostly consumer expectations that drove the increase, the "present situation" index remained near two-year lows. For those one recession watch, there are still few signs of cracks in the labor markets, with consumers increasingly unperturbed by the prospect of losing their jobs over the next five years.
Industrial Production	Jan	0.1%	-0.6%	+0.3%	
Mich. Consumer Sent.	Feb P	93.5	95.5	91.2	

Chart: Consumer sentiment recovers; job loss expectations low

Source: RBC Wealth Management, Bloomberg



Portfolio Advisory Group – U.S. Fixed Income Strategies

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