



Daily Market View

Friday, November 16, 2018

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	3.35	3.36
10-year UST	3.10	3.11
5-year UST	2.92	2.94
2-year UST	2.85	2.86
6-Mo UST	2.51	2.51
3-Mo UST	2.36	2.36
10-year TIPS	1.09	1.10
10-year Corp	4.68	4.68
10-yr AAA Muni	2.72	2.72
3M LIBOR	2.40	2.63
Fed Funds	2.25	2.25
Prime Rate	5.25	5.25
CPI (YoY)	2.50	2.90
NASDAQ*	7,259	7,259
DJIA*	25,289	25,289
S&P 500*	2,730	2,730
Oil	\$57.48	\$56.46
Gold	\$1,217.60	\$1,215.00
Copper	\$274.35	\$274.65
Yen / US Dollar	¥113.15	¥113.64
Euro / \$US	€ 1.1329	€ 1.1328

Link: [Bloomberg Economic Calendar](#)

*Previous Day

Client Friendly Publications

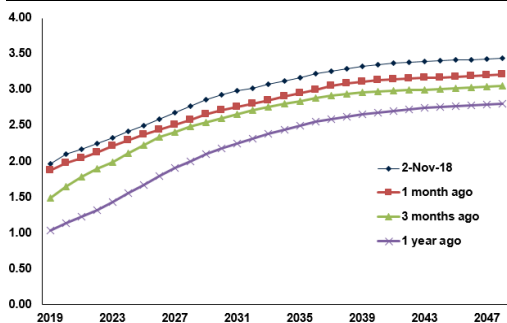
Municipal Market Insight [November 2018](#)

Credit Market Insight [October 2018](#)

Global Insight Weekly [November 15, 2018](#)

Global Insight Monthly [November 2018](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

Treasuries moved slightly higher this morning, with the 10Y sitting close to 3.10%, the 5th straight day of falling bond yields as trade concerns simmer. While the probability of a December rate hike still remains likely, with the futures market pricing in a 70% probability, the market has reduced the probability of a March rate hike below 50%. The overnight index swap (OIS) market has also dipped, and only prices in a Fed Funds rate at the end of 2019 at 2.73% - which effectively translates to just one hike in 2019 after a hike in December this year. While we still expect to see 2 next year, market volatility has spooked investors, and Jerome Powell noted 3 reasons that could factor into a pause in the hiking cycle – slowing foreign growth (demand), the diminishing impact of fiscal stimulus, and the lagged impact of past tightening by the Fed.

Credit

Credit spreads continued to widen yesterday, with the IG index spread reaching +128 bps over treasuries – the widest level of the year and above the 5Y average. In the HY market, spreads have ballooned to +404 bps – a fresh year-to-date high and the highest since March 2017.

Munis

Munis gained 3bps as this week's rally continued to gain steam through the end of trading yesterday. November's rally has the Bloomberg Barclays Muni Index returning 0.19% through Thursday. Investors pulled \$131M from muni funds, marking the eighth straight week of outflows.

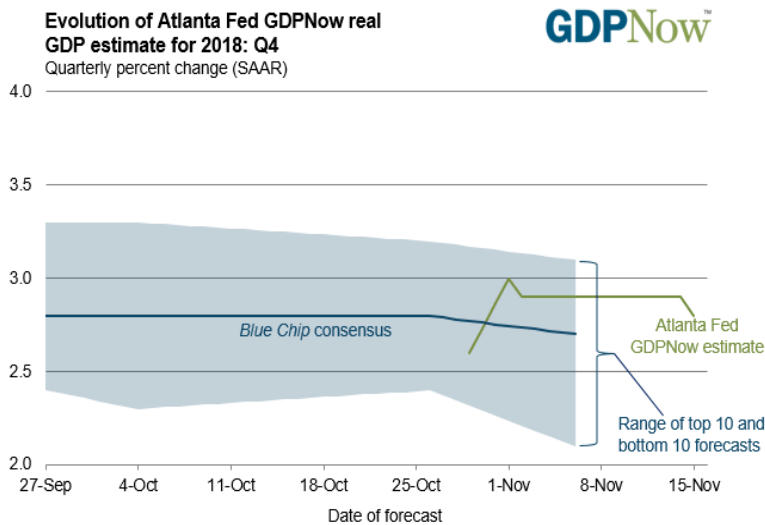
PG&E Corp.'s credit rating was lowered to the brink of junk. Moody's reduced the company's rating to 'Baa3' from 'Baa2' with the possibility of further downgrades. PG&E Corp. is facing severe financial challenges, \$10B or more, from the 2017 and 2018 wildfires.

 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Industrial Production m/m	Oct.	0.2%	-	0.3%	While industrial production is likely to have decelerated in October following a slight decline in aggregate manufacturing hours and the headline ISM manufacturing index, the sector remains on solid footing and should continue to post gains as business investment picks up in the later stages of the expansion.
Capacity Utilization	Oct.	78.2	-	78.1	
Kansas City Fed Manufacturing Index	Nov.	11	-	8	

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Initial Jobless Claims	Nov. 10	213k	216k	214k	<p>As expected, headline retail sales advanced in October boosted by gasoline purchases. Given that oil prices have since nosedived in November, we believe lower prices at the pump will help support solid growth in discretionary spending during the holiday shopping season and look for the trend of strong retail sales growth to increase through December.</p> <p>Beyond the gas-price impact, growth in spending was broad-based, supported by an acceleration in aggregate income growth, which was evident in the latest payrolls report. Solid demand for electronics, clothing and department store merchandise is a positive sign going into the holiday season. Bloomberg Economics projects holiday spending to rise 5.00%-5.25% relative to last year, based on elevated consumer confidence and healthy income prospects.</p> <p>While low energy prices have become less of an obvious positive for the U.S. economy, with energy extraction comprising a substantial share of business fixed investment, consumer spending still makes up the largest share of the economy. Weakening energy prices are still a net positive for overall growth. The decline in oil prices will drive gasoline prices lower than what would have otherwise been the case, and in turn will provide a nice dividend to the holiday shopping season.</p> <p>The GDPNow model estimate for real GDP growth in the fourth quarter of 2018 is 2.8 percent on November 15, down from 2.9 percent on November 9. The nowcast of fourth-quarter real personal consumption expenditures growth declined from 2.9 percent to 2.7 percent after this morning's retail sales report from the U.S. Census Bureau.</p>
Continuing Claims	Nov. 3	1,625k	1,676k	1,623k	
Retail Sales m/m	Oct.	0.5%	0.8%	-0.1%	
Retail Sales Control Group	Oct.	0.4%	0.3%	0.5%	
Empire Manufacturing	Nov.	20.0	23.3	21.1	
Philadelphia Fed Business Outlook	Nov.	20.0	12.9	22.2	
Import Price Index y/y	Oct.	3.3%	3.5%	3.5%	

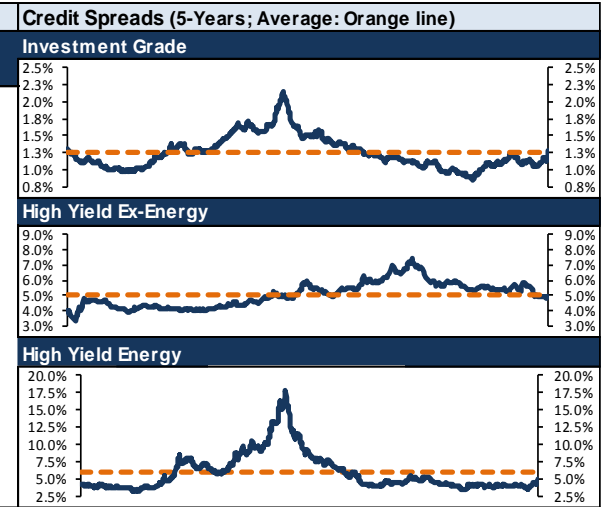


Source: RBC Wealth Management, Bloomberg

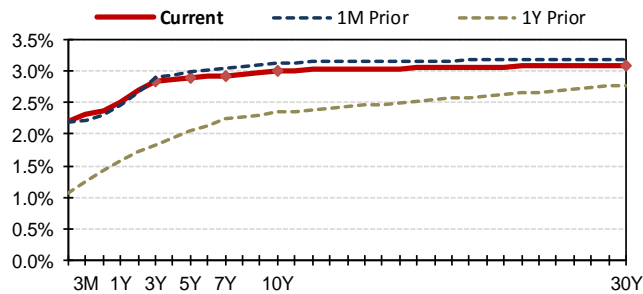


Treasury Yields									
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	4.58%	3.98%	3.05%	2.83%	2.68%	-	2.40%	2.36%	70.4%
6M	4.74	4.14	3.14	2.91	2.75	-	2.48	2.51	74.9%
1Y	5.05	4.44	3.33	3.07	2.90	1.98%	2.68	2.69	80.2%
2Y	5.66	5.00	3.65	3.34	3.19	2.09	2.83	2.85	85.0%
3Y	6.09	5.37	3.84	3.48	3.32	2.15	2.91	2.89	86.5%
4Y	6.44	5.64	3.98	3.57	3.42	2.23	3.01	2.91	86.9%
5Y	6.74	5.89	4.12	3.67	3.53	2.31	3.08	2.92	87.4%
7Y	7.24	6.33	4.42	3.88	3.63	2.47	3.39	3.01	89.9%
8Y	7.41	6.49	4.53	3.96	3.73	2.56	-	3.01	90.0%
9Y	7.56	6.62	4.64	4.05	3.82	2.64	-	3.05	91.2%
10Y	7.69	6.76	4.74	4.14	3.89	2.72	3.45	3.10	92.5%
15Y	8.29	7.21	5.10	4.50	3.95	3.06	-	3.16	94.4%
20Y	8.48	7.36	5.25	4.63	4.18	3.25	3.54	3.22	96.3%
25Y	8.40	7.23	5.21	4.58	4.34	3.35	3.59	3.28	98.1%
30Y	8.34	7.24	5.16	4.56	4.39	3.41	-	3.35	100.0%

Global Sovereign 10Y Yields			
	Current	-6m	-1m
USA	3.10	3.10	3.16
Canada	2.37	2.50	2.50
Brazil	5.49	5.38	5.43
Mexico	4.95	4.55	4.54
UK	1.41	1.50	1.61
France	0.75	0.84	0.84
Germany	0.36	0.60	0.49
Italy	3.45	2.11	3.45
Spain	1.63	1.40	1.64
Portugal	1.97	1.79	1.94
Greece	4.58	4.33	4.26
Japan	0.10	0.05	0.14
Australia	2.68	2.88	2.71
Hong Kong	2.37	2.20	2.41
China	3.36	3.71	3.58



Treasury Yield Curve

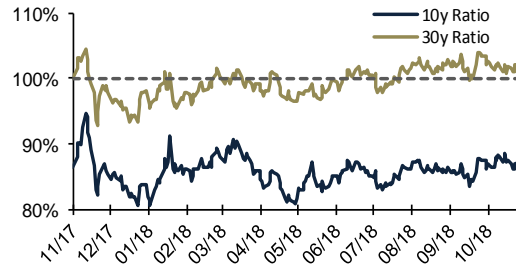


3-Month UST Curve Spread Trends			
2s - 5s	Now 10	Avg 13	
2s - 10s	Now 25	Avg 26	
5s - 30s	Now 37	Avg 31	
7s - 10s	Now 10000003	Avg 6	
10s - 30s	Now 22	Avg 17	

Corporate Bonds	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Treasury Index	-	-	-	-
Investment Grade	114	8.1	12.0	13.29
AA	70	11.1	16.7	16.67
A	100	8.7	11.1	25.00
BBB	161	11.0	15.0	24.81
Barclays US HY Index	404	11.9	17.4	11.60
S&P Pref. Stock Index	-	-	-	-
Bank Loans (BKLN)	-	-	-	-

Sector Performance	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Basic Materials	139	4.6	7.3	13.22
Communications	150	7.7	5.0	-1.25
Cons. Discretionary	121	6.4	5.1	21.63
Cons. Staples	121	9.2	11.5	20.06
Energy	146	11.1	18.0	13.40
Financials	96	6.9	11.4	22.96
Health Care	104	6.3	11.6	6.11
Industrials	107	9.9	19.6	27.83
Technology	90	10.5	17.3	1.21
Utilities	119	11.6	16.3	16.46

10-Year & 30-Year Muni/Treasury Yield Ratios



GO Municipal Benchmark 10y Yields (%)			
	Current	-6M	-1M
Composite	2.72	2.50	2.76
California	Real Time	2.56	2.81
New York	Real Time	2.50	2.76
Texas	Real Time	2.66	2.88
Florida	Real Time	2.60	2.89
Pennsylvania	Real Time	3.07	3.26
Minnesota	Real Time	2.63	2.80
Puerto Rico	Real Time	11.53	11.77

UNITED STATES	10-Year Yield Forecasts (%)					
	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Survey Month: November						
RBC Capital Markets	3.30	3.45	3.60	3.70	3.75	3.90
Bloomberg Median	3.21	3.31	3.40	3.46	3.50	3.53
Bloomberg 1-Month Prior	3.17	3.30	3.33	3.42	3.49	3.52

	CDS Price & Spread Levels			
	Pre-Crisis Low	Current	-1M	-6M
CDX Investment Grade	30bps	76.9	63.4	60.9
CDX High Yield	191bps	410.4	350.1	339.0

Portfolio Advisory Group – U.S. Fixed Income Strategies

The information contained in this report has been compiled by RBC Wealth Management from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. The material contained herein is not a product of any research department of RBC Capital Markets LLC or any of its affiliates. Nothing herein constitutes a recommendation of any security or regarding any issuer; nor is it intended to provide information sufficient to make an investment decision. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither RBC Wealth Management nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Wealth Management. RBC Wealth Management is a division of RBC Capital Markets LLC, which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada and part of the RBC Financial Group. Additional information available upon request.

Copyright © RBC Capital Markets, LLC - Member NYSE/FINRA/SIPC. All rights reserved.

DISCLAIMER: "ICE BENCHMARK ADMINISTRATION LIMITED MAKES NO WARRANTY, EXPRESS OR IMPLIED, EITHER AS TO THE RESULTS TO BE OBTAINED FROM THE USE OF ICE LIBOR AND/OR THE FIGURE AT WHICH ICE LIBOR STANDS AT ANY PARTICULAR TIME ON ANY PARTICULAR DAY OR OTHERWISE. ICE BENCHMARK ADMINISTRATION LIMITED MAKES NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE IN RESPECT OF ANY USE OF ICE LIBOR."