



Daily Market View

Wednesday, August 15, 2018

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	3.04	3.07
10-year UST	2.87	2.90
5-year UST	2.74	2.77
2-year UST	2.62	2.64
6-Mo UST	2.23	2.24
3-Mo UST	2.08	2.08
10-year TIPS	0.78	0.80
10-year Corp	4.25	4.25
10-yr AAA Muni	2.49	2.49
3M LIBOR	2.32	2.31
Fed Funds	2.00	2.00
Prime Rate	5.00	5.00
CPI (YoY)	2.90	2.90
NASDAQ*	7,871	7,871
DJIA*	25,300	25,300
S&P 500*	2,840	2,840
Oil	\$66.45	\$67.04
Gold	\$1,184.60	\$1,193.00
Copper	\$261.05	\$268.20
Yen / US Dollar	¥111.04	¥111.15
Euro / \$US	€ 1.1320	€ 1.1344

Link: [Bloomberg Economic Calendar](#)

*Previous Day

Client Friendly Publications

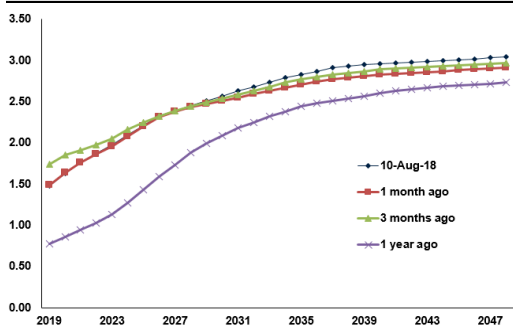
Municipal Market Insight [August 2018](#)

Credit Market Insight [July 2018](#)

Global Insight Weekly [August 09, 2018](#)

Global Insight Monthly [August 2018](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates


Treasury yields are falling this morning as global risk assets drop following poor earnings in overseas markets. The 10Y yield is down 3 bps, and the 2s/10s spread is down to just 25 bps. Today's retail sales release for the month of July will be closely watched, as it is one of the only significant planned events of the week, and provides the first insight into consumer spending in the second half of the year. Headline inflation has risen faster than wage growth in recent months, which in our view poses a risk to the recent surge in consumer spending, and street expectations predict that we see a dip in the m/m rate, which could put some downward pressure on rates across the curve.

Yesterday the common HY benchmark – the Bloomberg Barclays High Yield Index – fell by a whopping 17 basis points to just 320, the largest one day decline in almost 5 years. Typically moves of that magnitude are confined to the upside during risk-off periods, but it turns out that the rally was exaggerated due to so called “erroneous OAS values” and that the index would be restated going forward. So while high yield bonds have rallied, it was not as exaggerated as the index showed in yesterday's data.

Municipals

Tax-exempt yields were flat on Tuesday despite Treasury market weakness. The primary market held the focus, as this week's calendar is expected to be the largest year-to-date with \$11.8B in municipal bonds scheduled to price.

Puerto Rico's cash-flow deficit must be addressed before an official committee of unsecured creditors can agree to a debt-restructuring plan, the group of unsecured creditors said in a court filing. The committee said that it plans to continue working with other creditors and Puerto Rico's oversight board to work toward a debt agreement.

 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Empire Manufacturing	Aug.	20.0	-	22.6	The Empire Fed Manufacturing Survey is likely to show a retracement for a second consecutive month as the new orders component dipped for only the second time this year in July - foreshadowing a third-quarter moderation in GDP growth.
NAHB Housing Market Index	Aug.	67		68	The NAHB Housing Market Index is likely to retreat in August after holding steady in June and July. Rising rates have slowed new and existing home sales , a trend that is likely to continue in the second half of this year.
Retail Sales m/m	July	0.1%	-	0.5%	Headline retail sales are likely to fall given the 4% decline in auto-sales data already released for the month of July, and Bloomberg Economics views the pace of consumer spending in 2Q as unsustainable, largely because it significantly outpaced household income creation.
Industrial Production m/m	July	0.3%	-	0.6%	The pace of industrial production in July is likely to moderate following an auto-manufacturing led surge in June. However, economists will look to the details of the report for clues as to whether steel and aluminum tariffs are beginning to boost domestic production in those sectors , or if it is hurting production further down the supply chain.
Capacity Utilization	July	78.2%	-	78.0%	

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
NFIB Small Business Optimism	July	106.8	107.9	107.2	The NFIB small business survey pressed to the second highest level on record in the 45 year history despite plenty of headline noise and real threats from trade tariffs. In our opinion, the NFIB small business survey should be more widely followed considering most American's are employed by small business. Only an estimated 17% of the U.S. workforce is employed by S&P500 companies. Turning to the chart which shows the single biggest problem faced by small business owners, the quality of available labor has been the biggest problem now for the last 18 months.
Import Price Index y/y	July	4.5%	4.8%	4.3%	
Export Price Index y/y	July	-	4.3%	5.3%	



Source: RBC Wealth Management, Bloomberg

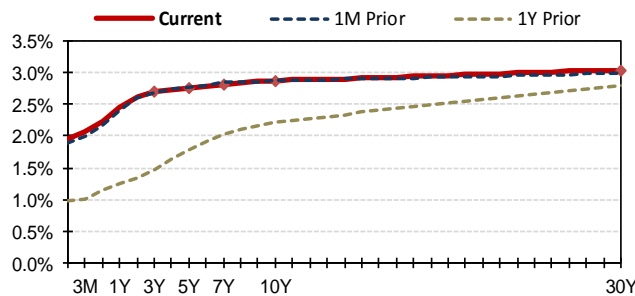
The big story in the labor market, is why haven't wages risen at a faster pace as employers compete for available talent? There are a few forces at work such as a demographic shift of older higher paid workers retiring and being replaced by younger lower paid workers as well as the impact of technology in the labor force, allowing the same amount of employees to be more efficient and do a greater amount of work.



Treasury Yields									
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	3.81%	3.57%	2.63%	2.47%	2.33%	-	2.07%	2.07%	68.0%
6M	3.96	3.70	2.74	2.56	2.40	-	2.14	2.23	73.3%
1Y	4.24	3.95	2.97	2.74	2.56	1.49%	2.38	2.44	80.3%
2Y	4.80	4.44	3.32	3.04	2.85	1.64	2.60	2.62	86.0%
3Y	5.23	4.79	3.54	3.21	3.00	1.78	2.72	2.68	88.3%
4Y	5.58	5.06	3.69	3.31	3.11	1.89	2.80	2.71	89.2%
5Y	5.89	5.31	3.84	3.41	3.23	1.99	2.88	2.74	90.1%
7Y	6.39	5.75	4.12	3.61	3.33	2.23	3.16	2.77	91.2%
8Y	6.58	5.90	4.22	3.69	3.43	2.32	-	2.81	92.2%
9Y	6.73	6.04	4.32	3.77	3.51	2.42	-	2.84	93.3%
10Y	6.88	6.17	4.42	3.86	3.59	2.50	3.23	2.87	94.4%
15Y	7.55	6.65	4.76	4.20	3.65	2.80	-	2.91	95.8%
20Y	7.81	6.78	4.86	4.30	3.87	2.96	3.25	2.96	97.2%
25Y	7.81	6.64	4.83	4.26	4.01	3.03	3.26	3.00	98.6%
30Y	7.71	6.64	4.77	4.23	4.06	3.09	-	3.04	100.0%

Global Sovereign 10Y Yields			Credit Spreads (5-Years; Average: Orange line)	
	Current	-1m	-6m	
USA	2.87	2.83	2.91	
Canada	2.30	2.13	2.37	
Brazil	5.70	5.60	4.89	
Mexico	4.45	4.26	4.24	
UK	1.24	1.27	1.65	
France	0.67	0.62	1.01	
Germany	0.31	0.34	0.76	
Italy	3.06	2.55	2.06	
Spain	1.41	1.26	1.50	
Portugal	1.81	1.73	2.04	
Greece	4.27	3.83	4.38	
Japan	0.10	0.04	0.06	
Australia	2.58	2.63	2.92	
Hong Kong	2.21	2.13	#N/A N/A	
China	3.58	3.48	3.87	

Treasury Yield Curve



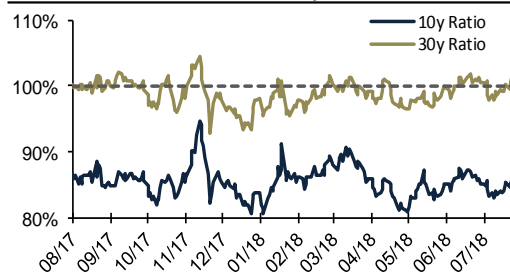
3-Month UST Curve Spread Trends

2s - 5s	Now 16	
	Avg 22	
2s - 10s	Now 29	
	Avg 36	
5s - 30s	Now 28	
	Avg 27	
7s - 10s	Now 4	
	Avg 4	
10s - 30s	Now 15	
	Avg 13	

Corporate Bonds

	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Treasury Index	-	-	-	-
Investment Grade	102	2.2	-3.9	-6.91
AA	62	5.1	-4.6	-4.62
A	92	4.5	-5.2	5.75
BBB	140	2.9	-4.1	1.45
Barclays US HY Index	339	4.3	-4.0	-11.95
S&P Pref. Stock Index	-	-	-	-
Bank Loans (BKLN)	-	-	-	-

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



GO Municipal Benchmark 10y Yields (%)

	Current	-1M	-6M
Composite	2.50	2.43	2.48
California	2.45	2.43	2.61
New York	2.47	2.50	2.45
Texas	2.63	2.60	2.64
Florida	2.56	2.54	2.62
Pennsylvania	2.92	3.02	3.09
Minnesota	2.52	2.49	2.62
Puerto Rico	13.86	11.77	11.53

Sector Performance

	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Basic Materials	131	2.8	-2.2	-6.72
Communications	146	1.6	-5.0	-8.10
Cons. Discretionary	101	1.8	-1.9	-6.82
Cons. Staples	101	2.5	-2.9	-3.14
Energy	124	2.3	-4.4	-16.73
Financials	85	1.7	-5.9	1.60
Health Care	94	2.9	-3.3	-6.96
Industrials	88	3.2	-2.4	-2.89
Technology	78	3.0	-2.2	-14.53
Utilities	105	1.4	-1.6	-3.77

UNITED STATES

Survey Month: <i>August</i>	10-Year Yield Forecasts (%)					
	3Q2018	4Q18	1Q19	2Q19	3Q19	4Q19
RBC Capital Markets	3.15	3.30	3.45	3.60	3.70	3.75
Bloomberg Median	3.03	3.10	3.21	3.30	3.38	3.48
<i>Bloomberg 1-Month Prior</i>	3.02	3.15	3.25	3.30	3.35	3.44

CDS Price & Spread Levels

	Pre-Crisis Low	Current		
		-3M	-6M	
CDX Investment Grade	30bps	62.6	61.3	53.0
CDX High Yield	191bps	337.5	340.9	323.9

Portfolio Advisory Group – U.S. Fixed Income Strategies

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