



# Daily Market View

Thursday, October 19, 2017

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.83	2.86
10-year UST	2.32	2.35
5-year UST	1.96	1.99
2-year UST	1.54	1.57
6-Mo UST	1.24	1.25
3-Mo UST	1.08	1.09
10-year TIPS	0.48	0.50
10-year Corp	3.18	3.15
10-yr AAA Muni	1.95	1.95
3M LIBOR	1.36	1.36
Fed Funds	1.25	1.25
Prime Rate	4.25	4.25
CPI (YoY)	2.20	2.00
NASDAQ*	6,624	6,624
DJIA*	23,158	22,997
S&P 500*	2,561	2,559
Oil	\$51.27	\$52.04
Gold	\$1,279.90	\$1,279.90
Copper	\$316.10	\$317.80
Yen / US Dollar	¥112.54	¥112.94
Euro / \$US	€ 1.1833	€ 1.1787

Link: [Bloomberg Economic Calendar](#)

## Rates

Treasuries are reversing yesterday's losses, with the 10Y yield down 2 bps to 2.32% as a level of uncertainty weighs on the market after Spain announced it would suspend the autonomy of the Catalan region. Current Fed Chair Janet Yellen is set to meet with President Trump today over the possibility of extending her term as Fed Chair. Should we receive news that the meeting went well, we would expect rates to fall, as Yellen is still viewed as more dovish than some of the other candidates – including Kevin Warsh and John Taylor.

China continues to be a strong force of demand in the U.S. treasury market, with the People's Bank of China adding \$34.5B in the month of August. This puts China's total holdings at \$1.2T – the largest foreign reserve of Treasuries in the world. China has long been a buyer of treasuries, and has recently picked up the pace as their currency continues to strengthen relative to the dollar – 6% in August. Should we see continued dollar weakness and strong economic growth out of China despite credit tightening measures, we would expect the PBOC to continue to place a heavy hand on the Treasury market to try and buoy its currency from further material appreciation.

## Credit

The October Edition of the client-friendly [Credit Market Insight](#) is [here](#). In this month's edition, we focus on where to put money to work on the yield curve, while sticking with our 'quality is king' theme. For many fixed income investors looking to put money to work, the first question usually asked is where to park money on the yield curve. And given that we are currently in a "rising rate environment," it's more prescient than usual. But it's important to remember that not all rates are the same. Even though the Fed has been raising short-term rates, those investors who have avoided the temptation to get short on the yield curve and have stayed long have seen relative outperformance. In fact, when the Fed began raising short-term rates back on December 16, 2015, the 10Y Treasury yielded 2.30%. Three subsequent hikes later that have boosted the federal funds rate by 1%, and the 10Y Treasury has barely budged, closing out September at just 2.33%. And this, generally, has encompassed our view on yield curve positioning since the Fed embarked on normalizing policy—Fed policy will raise yields at the front end of curves, but steady growth and minimal inflation risk should keep yields at the longer end well anchored—and argues for extending duration out on the curve for the incremental yield and outperformance.

## Municipals

Longer dated munis weakened yesterday losing 2 bps as this week's \$9.9B primary deals continued pricing. Secondary market weakness drove the overall weak tone.

The Pennsylvania House approved a tax and revenue plan aimed at closing the state's \$2.2B budget gap. The plan seeks to securitize revenues from the state's 1998 tobacco settlement and shift \$500M in transfers from other accounts.

Puerto Rico's independent investigator plans to use subpoena power to interview witnesses as part of his investigation into the bankrupt commonwealth's finances. Puerto Rico GO bonds tumbled for the sixth straight day as recovery concerns mount.

\*Previous Day

## Client Friendly Publications

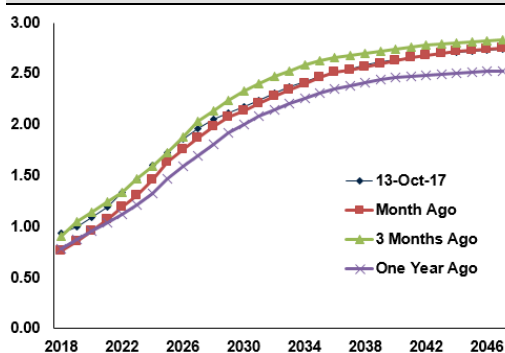
Municipal Market Insight [October 2017](#)

Credit Market Insight [October 2017](#)

Global Insight Weekly [October 12, 2017](#)

Global Insight Monthly [October 2017](#)

## Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

 Key U.S. Economic Data Releases

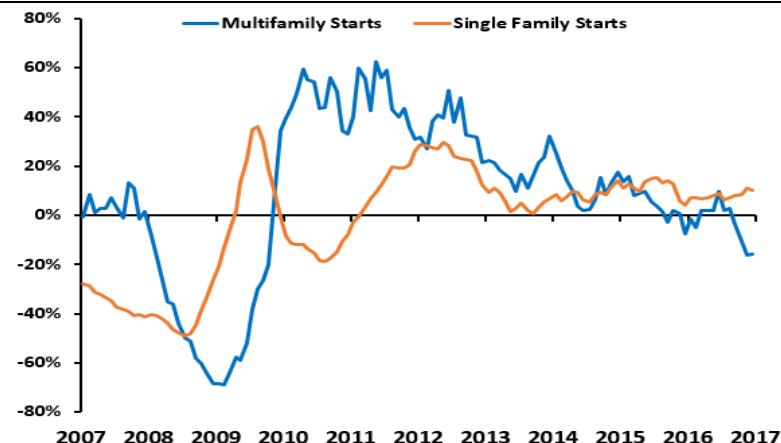
Event	Period	Survey	Actual	Prior	Our Thoughts
Initial Jobless Claims	Oct. 14	240k	-	243k	Jobless claims have already fallen back to pre-storm levels, and economists are already anticipating a strong rebound in non-farm payrolls to 325k.
Continuing Claims	Oct. 7	1,890k	-	1,889k	
Philadelphia Fed Business Outlook	Oct.	22.0	-	23.8	We wouldn't be surprised to see the Philly Fed index beat expectations, because the region was unaffected by the storms and manufacturing activity in the New York area remained robust.
Leading Index	Sep.	0.1%	-	0.4%	Given the heavy weighting to non-farm payrolls data, expectations are for the leading index to have fallen in September due to the "negative hiring" experienced during the month.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior
Housing Starts m/m	Sep.	-0.4%	<b>-4.7%</b>	-0.8%
Building Permits m/m	Sep.	-2.1%	<b>-4.5%</b>	5.7%

**Single Family Housing Needs To Lead The Way For Economic Growth**

Headline housing starts came in slightly below consensus and I'm sure you can guess why.... Besides the 15% decline in activity in the south, the other regions expanded by 6-11%. I know it has certainly been the case in Minneapolis, but there has been an explosion in construction of multi-family housing (apartments) due to changing consumer preferences and demographic shifts – such as boomers and Gen X whose kids are out of the house and they no longer need/want a large home to maintain. However, when it comes to GDP growth, single family home construction will have to do the heavy lifting if housing is going to continue to contribute to growth as the demand for multi-family homes has been met with adequate supply.

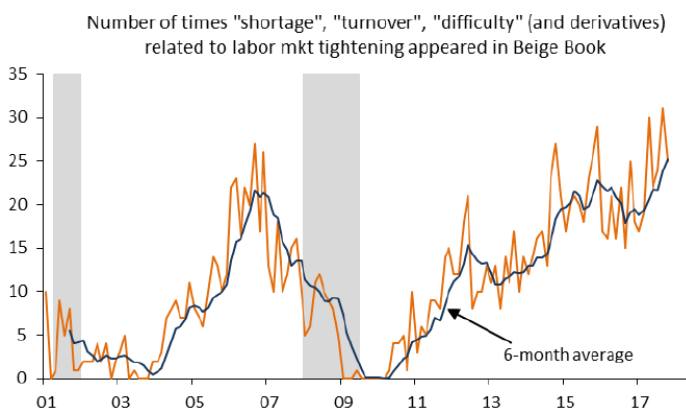


Source: RBC Wealth Management, Bloomberg

RBC Capital Markets – Daily Deck

There was nothing in the Fed's latest Beige Book to elicit a shift in the broad narrative. In terms of the more significant themes, the BB showed that labor markets continue to tighten further but pass-through to wages and end-user inflation is still contained. The broad tone improved a bit with the count of words that reflect negatively on the backdrop back down to cycle lows. This comports with the re-acceleration in the so called "soft" data, which also just handily put in a cycle high...

Our BB barometer of labor market tightness, while down slightly this month, has been on a pretty relentless up-trend. Again, consistent with the plethora of metrics that suggest a growing supply/demand imbalance in the labor market.

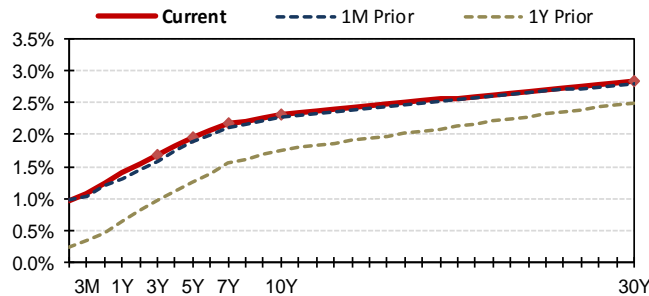


Source: RBC Capital Markets US Economics, Haver



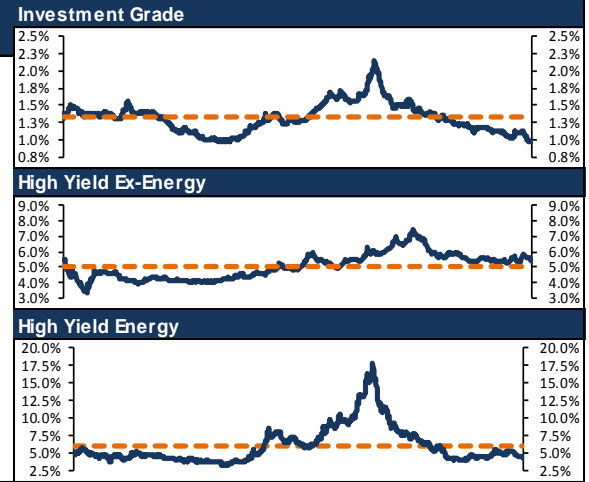
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	2.57%	2.18%	1.69%	1.48%	1.36%	-	1.10%	1.08%	38.1%
6M	2.73	2.29	1.76	1.55	1.42	-	1.18	1.23	43.6%
1Y	3.01	2.49	1.90	1.69	1.54	0.93%	1.36	1.40	49.4%
2Y	3.69	2.99	2.19	1.95	1.79	1.03	1.61	1.54	54.4%
3Y	4.17	3.42	2.45	2.17	2.00	1.14	1.68	1.68	59.2%
4Y	4.55	3.77	2.66	2.35	2.18	1.25	1.68	1.82	64.2%
5Y	4.88	4.09	2.86	2.52	2.35	1.37	1.88	1.96	69.2%
7Y	5.44	4.66	3.25	2.84	2.52	1.62	2.26	2.05	72.3%
8Y	5.67	4.87	3.40	2.96	2.67	1.74	-	2.14	75.5%
9Y	5.86	5.06	3.53	3.07	2.81	1.87	-	2.23	78.6%
10Y	6.07	5.24	3.66	3.19	2.93	1.95	2.63	2.32	81.8%
15Y	6.94	5.98	4.17	3.69	3.04	2.38	-	2.44	86.4%
20Y	7.34	6.36	4.38	3.89	3.44	2.59	2.80	2.57	90.9%
25Y	7.54	6.37	4.35	3.90	3.65	2.71	2.99	2.70	95.5%
30Y	7.55	6.36	4.29	3.87	3.74	2.78	-	2.83	100.0%

Treasury Yield Curve

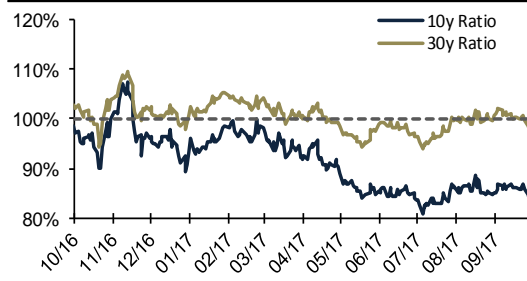


3-Month UST Curve Spread Trends	
2s - 5s	Now 40 Avg 44
2s - 10s	Now 77 Avg 86
5s - 30s	Now 90 Avg 99
7s - 10s	Now 16 Avg 18
10s - 30s	Now 53 Avg 57

Global Sovereign 10Y Yields	Credit Spreads (5-Years; Average: Orange line)		
	Current	-1m	-6m
USA	2.32	2.25	2.22
Canada	2.02	2.09	1.46
Brazil	4.69	4.40	4.68
Mexico	3.55	3.52	3.62
UK	1.28	1.33	1.06
France	0.81	0.72	0.95
Germany	0.39	0.45	0.20
Italy	2.04	2.04	2.27
Spain	1.62	1.55	1.66
Portugal	2.29	2.40	3.79
Greece	5.41	5.49	6.60
Japan	0.06	0.02	0.00
Australia	2.76	2.81	2.46
Hong Kong	1.64	1.52	1.36
China	3.71	3.61	3.41



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



	GO Municipal Benchmark 10y Yields (%)		
	Current	-1M	-6M
Composite	1.95	1.89	2.05
California	2.08	2.08	2.30
New York	2.16	2.19	2.06
Texas	2.09	2.07	2.20
Florida	2.09	2.04	2.11
Pennsylvania	2.46	2.49	2.61
Minnesota	1.98	2.05	2.10
Puerto Rico	13.86	11.77	11.53

Corporate Bonds	Spread Performance			Total Return Data (%)			
	OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Treasury Index	-	-	-	2.22	(0.43)	0.28	(0.96)
Investment Grade	100	-0.4	-8.1	5.52	0.39	2.70	2.70
AA	57	-0.4	-12.2	4.57	0.34	2.13	1.53
A	78	-0.3	-9.5	5.03	0.35	2.45	2.13
BBB	128	-0.5	-6.8	6.19	0.44	3.06	3.50
Barclays US HY Index	337	-0.3	-3.7	7.44	0.75	4.20	8.24
S&P Pref. Stock Index	-	-	-	3.39	(0.91)	-	(1.76)
Bank Loans (BKLN)	-	-	-	2.12	0.87	1.56	3.58

Sector Performance	Avg Maturity (yrs)	Spread Performance			Total Return Data (%)			
		OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Basic Materials	12.6	125	-0.6	-7.3	8.39	0.71	4.05	6.08
Communications	14.2	143	0.7	-5.3	5.73	0.51	2.96	1.32
Cons. Discretionary	10.7	98	-1.3	-10.3	5.15	0.40	2.48	2.02
Cons. Staples	11.4	98	-0.1	-8.1	4.83	0.31	2.33	0.89
Energy	11.7	137	-1.3	-7.8	6.51	0.73	3.12	4.86
Financials	7.5	89	-0.7	-9.6	4.94	0.28	2.45	3.12
Health Care	12.2	90	0.1	-7.7	6.07	0.32	3.00	2.21
Industrials	12.4	82	0.0	-7.6	4.89	0.27	2.18	1.78
Technology	10.7	73	-0.7	-11.3	5.33	0.51	2.50	2.43
Utilities	15.0	102	0.1	-5.0	5.98	0.29	3.04	2.32

UNITED STATES	10-Year Yield Forecasts (%)					
	4Q2017	1Q2018	2Q2018	3Q2018	4Q18	1Q19
Survey Month: <b>October</b>						
RBC Capital Markets	2.65	2.85	3.00	3.20	3.40	
Bloomberg Median	2.49	2.60	2.70	2.83	2.97	3.14
Bloomberg 1-Month Prior	2.48	2.60	2.75	2.90	3.00	3.15

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	54.6	55.0	57.0	73.7
CDX High Yield	191bps	317.4	324.3	320.5	398.0

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## Portfolio Advisory Group – U.S. Fixed Income Strategies

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