



Daily Market View

Wednesday, August 23, 2017

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.77	2.79
10-year UST	2.20	2.21
5-year UST	1.77	1.78
2-year UST	1.32	1.32
6-Mo UST	1.13	1.13
3-Mo UST	1.01	1.00
10-year TIPS	0.43	0.44
10-year Corp	3.15	3.12
10-yr AAA Muni	1.88	1.88
3M LIBOR	1.31	1.31
Fed Funds	1.25	1.25
Prime Rate	4.25	4.25
CPI (YoY)	1.70	2.00
NASDAQ*	6,297	6,297
DJIA*	21,900	21,704
S&P 500*	2,453	2,428
Oil	\$47.68	\$47.64
Gold	\$1,285.10	\$1,285.10
Copper	\$298.65	\$298.70
Yen / US Dollar	¥109.13	¥109.57
Euro / \$US	€ 1.1804	€ 1.1762

Link: [Bloomberg Economic Calendar](#)

*Previous Day

Client Friendly Publications

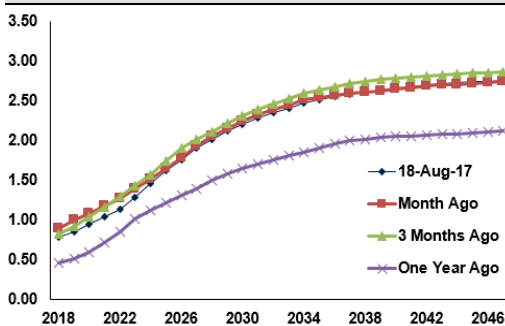
Municipal Market Insight [August 2017](#)

Credit Market Insight [August 2017](#)

Global Insight Weekly [August 17, 2017](#)

Global Insight Monthly [August 2017](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

The 10Y yield crept back into the 2.20% range yesterday as investors continued to pile into risk assets, with the spread on high yield bonds tightening in 4 bps to cross back inside of its 200-day moving average of 387 bps. The 200-day moving average has been a key technical level in the past, and spreads have only cracked through to the upside twice in the last 4 years, periods that were followed by additional widening of 164 and 389 bps, respectively. We are not quite ready to remove our underweight recommendation on the HY sector, but we are closely watching spreads to see if a breach of the technical level opens up a buying opportunity on the horizon.

The economic calendar remains light today, but we will get to hear from Dallas Fed President Robert Kaplan, who will likely give us some of his thoughts on inflation during the Q&A portion of his speech in Texas.

Credit

The August edition of the Credit Market Insight is [here](#). In this month's edition, we highlight the year-to-date outperformance of the preferred share market, which has posted returns second only to the S&P 500 this year at 9%, and lay out a roadmap for investors to find the remaining value going forward.

We would note that we still like the preferred space for its income, yields relative to other fixed income asset classes, and in the hybrid market, interest rate protection. But with preferred indexes now trading near levels last seen last summer when the 10Y yield was hovering at an all-time low of 1.36%, the case can be made that valuations are a bit stretched – notably in the fixed-to-float, or 'hybrid' market. And while our rate outlook has the 10Y holding below 2.6% for the balance of the year, we have a neutral outlook on the sector, and investors should be somewhat cautious at current prices. For investors looking to put new money to work, we continue to suggest discipline through sticking with long call protection, high reset spreads, and limit exposure to prices exceeding \$110 in the hybrid space and \$26 in the fixed-rate space.

Municipals

Munis held steady yesterday and outperformed weaker Treasuries. This week's modest issuance calendar allowed dealers to price new deals without the need for repricing.

Judge Laura Swain, who is heading up Puerto Rico's bankruptcy, approved hiring a financial advisor to mediate restructuring solutions between creditors and representatives of the island.

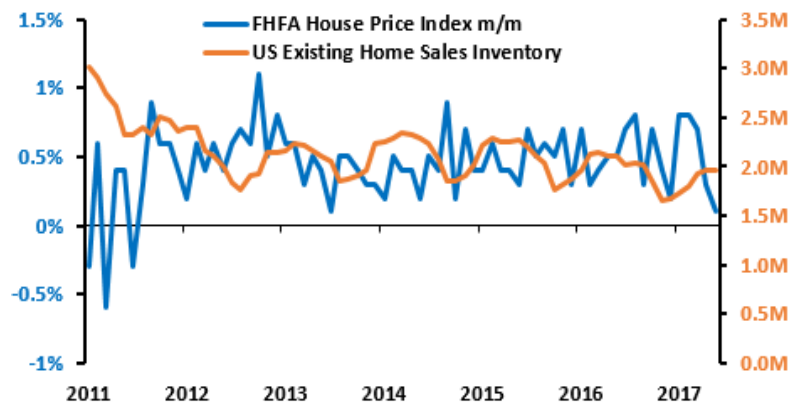
The pressure continues mounting on Connecticut's deficit. 2 months into fiscal 2018, the state is facing a \$93.9M operating deficit. The state continues operating under executive orders issued by Governor Malloy, while the governor and legislators work on a full-year budget.

 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
New Home Sales m/m	July	0.0%	-	0.8%	New home sales are expected to have moderated in July, not because of a lack of demand, but because of a lack of supply of new homes – continuing the trend of supply side issues in the housing market.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
FHFA House Price Index	June	0.5%	0.1%	0.4%	<p>Home Prices Continue To Appreciate on Lack of Inventory</p> <p>No surprise here, home prices have continued to increase for the last 5 years as the economy continues to recover, and the lack of available housing inventory has buyers competing with each other, thus bidding up prices. This month's decline in the rate of appreciation is interesting, and we will be watching if this is the beginning of the new normal, as house price growth has outstripped wage growth the last 5 years, thus making buying a home less affordable and removing buyers from the market – we will watch to see if price appreciation slows to ~3% year-over-year which would be more in line with wage growth.</p>
Richmond Fed Manufacturing Index	Aug.	10	14	14	



Source: RBC Wealth Management, Bloomberg

RBC Capital Markets North American Morning Comment

US: Trump comments weigh against more upbeat data

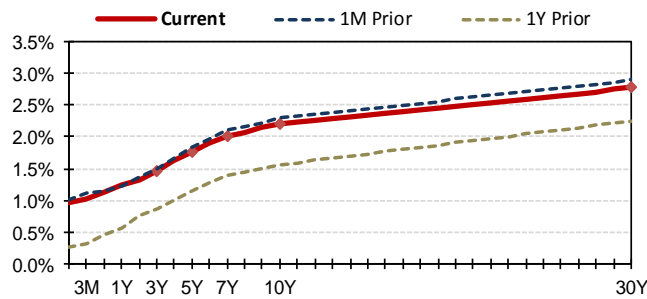
A positive tone for equities in yesterday's session (S&P500 +1.0%) carried over initially into Asian trading (Nikkei +0.3%, Hang Seng closed on typhoon warnings) before dissipating somewhat on President Trump's remarks on NAFTA (likely to be terminated) and government operations (possibly shut down over funding of the border wall). While the desire and ability to follow through on such sentiment is questionable, equity futures are now weaker by ~0.2%, while bond yields are little changed and the USD is a little weaker on a trade-weighted basis (-0.2%). Beyond the President's comments, there have been few market-movers in the overnight session with the exception of a generally upbeat set of European "flash" PMIs (the composite Eurozone index for August coming in at 55.8 versus a consensus 55.5).

The domestic session sees a smattering of mostly second-tier indicators, including August Markit PMIs and July new home sales. On the latter, RBC is looking for a modest increase to a 615k annualized pace from 610k in June (consensus 610k). The lone Fed speaker today is Dallas Fed President Kaplan, speaking this afternoon to an association of oil producers, while the Treasury reopens US\$13bn 2-year FRNs. The KC Fed's Jackson Hole detailed schedule will be released tomorrow at 4pm ET just as the conference kicks off, but the expected highlights will be Fed Chair Yellen's address at 10am on Friday and ECB Draghi's scheduled remarks at 3pm the same day (having defending the efficacy of non-traditional monetary policy measures in a speech overnight).



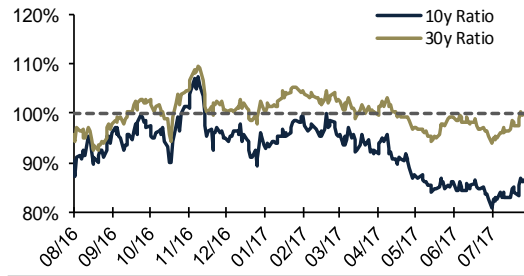
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	2.37%	2.27%	1.66%	1.43%	1.30%	-	1.03%	1.00%	36.3%
6M	2.54	2.39	1.73	1.49	1.35	-	1.02	1.13	40.6%
1Y	2.86	2.61	1.85	1.60	1.44	0.79%	1.15	1.22	44.1%
2Y	3.63	3.12	2.10	1.83	1.67	0.88	1.39	1.32	47.6%
3Y	4.20	3.56	2.34	2.04	1.87	0.97	1.47	1.46	52.8%
4Y	4.63	3.92	2.56	2.23	2.06	1.06	1.47	1.62	58.4%
5Y	5.00	4.25	2.78	2.42	2.25	1.15	1.65	1.77	63.9%
7Y	5.58	4.84	3.20	2.77	2.44	1.46	2.08	1.88	67.8%
8Y	5.80	5.06	3.36	2.90	2.61	1.61	-	1.98	71.6%
9Y	6.00	5.25	3.50	3.02	2.76	1.76	-	2.09	75.5%
10Y	6.20	5.44	3.64	3.15	2.89	1.89	2.59	2.20	79.3%
15Y	7.06	6.20	4.18	3.69	3.02	2.37	-	2.34	84.5%
20Y	7.44	6.59	4.40	3.91	3.45	2.59	2.69	2.48	89.7%
25Y	7.53	6.59	4.39	3.92	3.69	2.70	2.92	2.63	94.8%
30Y	7.52	6.60	4.34	3.91	3.79	2.77	-	2.77	100.0%

Treasury Yield Curve



3-Month UST Curve Spread Trends	
2s - 5s	Now 44 Avg 47
2s - 10s	Now 87 Avg 90
5s - 30s	Now 102 Avg 103
7s - 10s	Now 18 Avg 18
10s - 30s	Now 59 Avg 59

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



	GO Municipal Benchmark 10y Yields (%)		
	Current	-1M	-6M
Composite	1.89	1.87	2.37
California	2.06	2.04	2.61
New York	2.06	2.04	2.34
Texas	2.02	2.01	2.49
Florida	2.02	2.02	2.46
Pennsylvania	2.31	2.40	3.02
Minnesota	2.00	1.94	2.41
Puerto Rico	13.86	11.77	11.53

UNITED STATES	10-Year Yield Forecasts (%)					
	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q18
Survey Month: August						
RBC Capital Markets	2.45	2.65	2.85	3.00	3.20	3.40
Bloomberg Median	2.40	2.60	2.70	2.85	2.98	3.10
Bloomberg 1-Month Prior	2.45	2.60	2.74	2.90	3.00	3.15

Global Sovereign 10Y Yields	Credit Spreads (5-Years; Average: Orange line)		
	Current	-1m	-6m
USA	2.20	2.24	2.37
Canada	1.90	1.88	1.67
Brazil	4.54	4.50	4.77
Mexico	3.57	3.59	3.85
UK	1.07	1.17	1.15
France	0.69	0.75	0.98
Germany	0.39	0.50	0.23
Italy	2.13	2.06	2.21
Spain	1.57	1.45	1.67
Portugal	2.76	2.89	3.95
Greece	5.44	5.22	7.21
Japan	0.02	0.06	0.08
Australia	2.67	2.70	2.79
Hong Kong	1.42	1.47	1.83
China	3.65	3.58	3.31

Investment Grade

High Yield Ex-Energy

High Yield Energy

Investment Grade

High Yield Ex-Energy

High Yield Energy

Corporate Bonds	Spread Performance			Total Return Data (%)			
	OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Treasury Index	-	-	-	2.68	0.31	2.26	(1.52)
Investment Grade	112	0.2	6.5	4.82	(0.06)	3.92	1.43
AA	67	-0.3	7.5	4.04	(0.07)	3.44	0.03
A	88	0.2	5.6	4.52	0.02	3.80	0.76
BBB	143	0.3	6.5	5.28	(0.13)	4.16	2.38
Barclays US HY Index	386	1.6	8.4	5.47	(0.37)	2.70	8.20
S&P Pref. Stock Index	-	-	-	4.39	(1.42)		(3.06)
Bank Loans (BKLN)	-	-	-	1.07	-0.39	0.69	3.36

Sector Performance	Avg Maturity (yrs)	Spread Performance			Total Return Data (%)			
		OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Basic Materials	12.5	139	-0.3	4.3	7.06	0.15	4.41	4.36
Communications	14.0	155	0.5	10.1	4.66	(0.64)	4.49	(0.38)
Cons. Discretionary	10.6	114	0.7	7.5	4.34	(0.14)	3.32	0.55
Cons. Staples	11.4	114	0.8	9.3	4.28	(0.28)	3.75	(0.53)
Energy	11.6	157	0.2	5.1	5.09	0.05	3.62	3.98
Financials	7.5	100	-0.2	2.7	4.48	0.24	3.58	2.20
Health Care	12.1	102	0.7	15.1	5.33	(0.60)	4.54	0.50
Industrials	12.8	91	0.2	7.0	4.54	(0.18)	3.77	0.36
Technology	10.8	85	-0.4	9.3	4.55	(0.34)	3.89	1.12
Utilities	14.8	108	0.2	0.4	5.76	0.56	4.89	0.79

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	61.0	56.3	61.9	70.8
CDX High Yield	191bps	339.0	320.6	327.1	381.2

Portfolio Advisory Group – U.S. Fixed Income Strategies

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