



Daily Market View

Monday, June 26, 2017

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.70	2.72
10-year UST	2.13	2.14
5-year UST	1.75	1.76
2-year UST	1.34	1.34
6-Mo UST	1.10	1.10
3-Mo UST	0.96	0.96
10-year TIPS	0.42	0.43
10-year Corp	3.13	3.14
10-yr AAA Muni	1.84	1.84
3M LIBOR	1.29	1.30
Fed Funds	1.25	1.25
Prime Rate	4.25	4.25
CPI (YoY)	1.90	2.00
NASDAQ*	6,265	6,265
DJIA*	21,395	21,397
S&P 500*	2,438	2,435
Oil	\$43.27	\$43.01
Gold	\$1,241.60	\$1,256.20
Copper	\$262.75	\$262.40
Yen / US Dollar	¥111.43	¥111.28
Euro / \$US	€ 1.1211	€ 1.1194

Link: [Bloomberg Economic Calendar](#)

Rates

Treasury yields are down about a basis point so far this morning, with the 10-year yield still treading water in the 2.10-2.40% trading range that we have seen since we saw it break through the 2.30% level in early April. This week promises to be busy for Fed-watchers, with all of the heads of the world's major central banks set to speak, including Janet Yellen of the Fed, Mario Draghi of the ECB, Mark Carney of the BoE, and Haruhiko Kuroda of the BoJ.

Credit

The June edition of the Credit Market Insight is [here](#). In this month's edition we upgrade our outlook for A-rated corporates to Neutral. Over the last few months, we have continued to move up the credit spectrum as the yield advantage of riskier credits dissipates. And while the continued drive lower in credit spreads can be partially attributed to rising equity prices and strong economic fundamentals, it is also a product of investors reaching for yield, and in our view, the risk/reward trade-off doesn't favor taking on additional credit risk. The yield on A-rated credits is near the top end of its 5Y average, while yields on BB credits are near cycle lows – flattening the credit curve as show below. In our credit ranking scale, the last standing overweight category remains BBB, which still offers the most attractive mix of interest rate risk and credit risk, but that may be short-lived as yields continue to fall.

Municipals

Munis ended the week flat, following last week's \$10.6B of issuance preparing for this week's lighter \$6.8B calendar. Trading was light to end the week, while long-dated munis gained 1 bp with the 30-year muni yielding 2.69%, or 98.9% of Treasuries. Muni bond funds were reported to have seen \$891M in outflows last week, but Lipper has announced that the print is incorrect, and that there will be a revised that is expected to be much lower.

Members of PR Oversight board in its first signs of disagreement with the commonwealth, demanded government employee furloughs and suspension of Christmas bonuses, which have been a contentious issue for years. Governor Rossello fired off a letter to the board disagreeing with its board's authority requesting the furloughs.

Alaska legislators under pressure to avert a government shutdown passed a \$4.1B budget for the fiscal year beginning July 1st. The budget plan continues relying on reserve funds and approximately \$129M in spending cuts. Alaska residents will continue receiving dividend checks, including \$1,100 for 2017.

*Previous Day

Client Friendly Publications

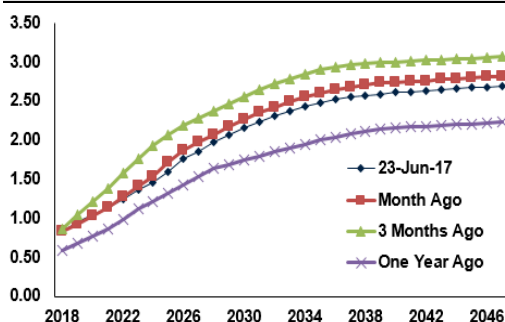
Municipal Market Insight [June 2017](#)

Credit Market Insight [June 2017](#)

Global Insight Weekly [June 22, 2017](#)

Global Insight Monthly [June 2017](#)

Municipal AAA GO Yield Curve



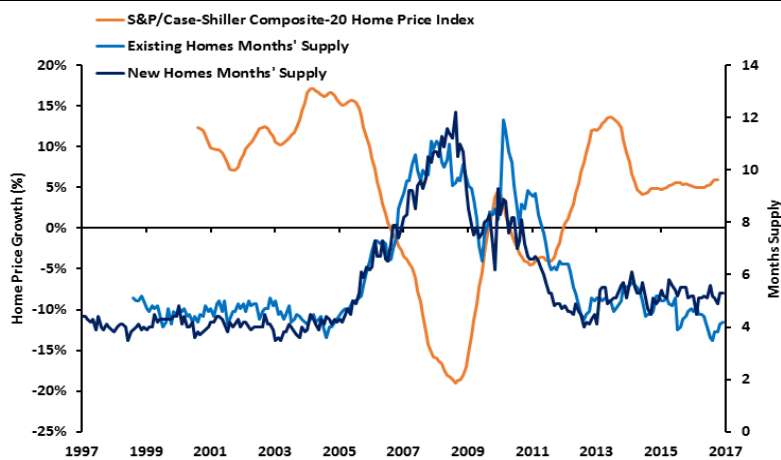
Source: RBC Wealth Management, MMD

 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Durable Goods Orders	May P	-0.6%	-	-0.8%	Durable goods orders could be a wild card after ISM data showed a reacceleration of new orders, but regional Fed surveys showed a slowdown in May.
Capital Goods Orders Nondef. Ex Air	May P	0.3%	-	0.1%	
Chicago Fed National Activity Index	May	0.20	-	0.49	Expectations are for the index to retreat to the softness in May's hiring, although the index will still remain positive, signalling economic growth throughout the month.
Dallas Fed Manufacturing Index	June	16.0	-	17.2	As with all regional Fed manufacturing surveys, we will be watching the prices paid/received components to look for inflationary pressures coming down the pipeline.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
New Home Sales m/m	May	3.7%	2.9%	-11.4%	<p>New Home Sales Regain Trend</p> <p>Following a seasonal quirk in the housing data that sent new home sales data plummeting 11.4% in April, new home sales data got back on track, expanding 2.9% in May. The monthly volatility as of late has partially been driven in part by a lack of inventory, which has fallen to just 5 months of available supply at current sales levels. The falling inventory levels have benefited existing homeowners, with the median price of a new home sold surging 16.8% from a year ago to \$345.8k.</p> <p>We will continue to watch the pace of housing starts and permits data to watch for the progress from the homebuilders, who have stated they would like to increase building activity to meet current demand. The fundamentals of the housing market remain intact, with falling mortgage rates, strong employment, and strong consumer and homebuilder optimism about the current state of the market.</p>
Markit US Manufacturing PMI	June P	53.0	52.1	52.7	
Markit US Services PMI	June P	53.5	53.0	53.6	

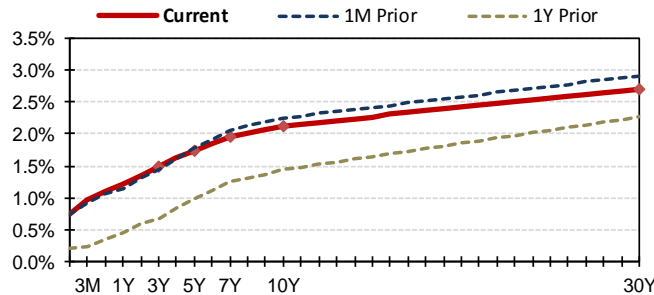


Source: RBC Wealth Management, Bloomberg



	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	2.30%	2.09%	1.63%	1.40%	1.26%	-	1.03%	0.96%	35.5%
6M	2.44	2.20	1.71	1.47	1.32	-	1.09	1.10	40.7%
1Y	2.72	2.40	1.85	1.60	1.42	0.76%	1.17	1.20	44.6%
2Y	3.41	2.91	2.12	1.85	1.67	0.90	1.34	1.34	49.8%
3Y	3.94	3.35	2.37	2.07	1.88	1.01	1.53	1.48	54.8%
4Y	4.35	3.73	2.58	2.25	2.06	1.12	1.51	1.61	59.9%
5Y	4.70	4.07	2.80	2.42	2.25	1.24	1.71	1.75	64.9%
7Y	5.27	4.68	3.19	2.74	2.43	1.48	2.08	1.84	68.5%
8Y	5.48	4.91	3.34	2.86	2.58	1.61	-	1.94	72.0%
9Y	5.67	5.10	3.47	2.97	2.72	1.74	-	2.03	75.5%
10Y	5.87	5.29	3.61	3.10	2.85	1.84	2.51	2.13	79.1%
15Y	6.67	6.05	4.15	3.63	2.97	2.31	-	2.27	84.3%
20Y	7.02	6.45	4.38	3.86	3.39	2.56	2.58	2.41	89.5%
25Y	7.07	6.48	4.37	3.87	3.64	2.65	2.89	2.55	94.8%
30Y	7.03	6.47	4.31	3.85	3.73	2.70	-	2.69	100.0%

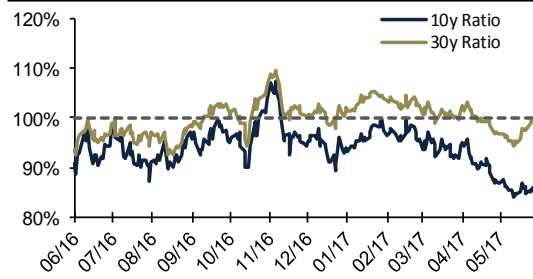
Treasury Yield Curve



3-Month UST Curve Spread Trends

Maturity	Now	Avg
2s - 5s	41	54
2s - 10s	80	99
5s - 30s	97	110
7s - 10s	17	19
10s - 30s	58	64

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



GO Municipal Benchmark 10y Yields (%)

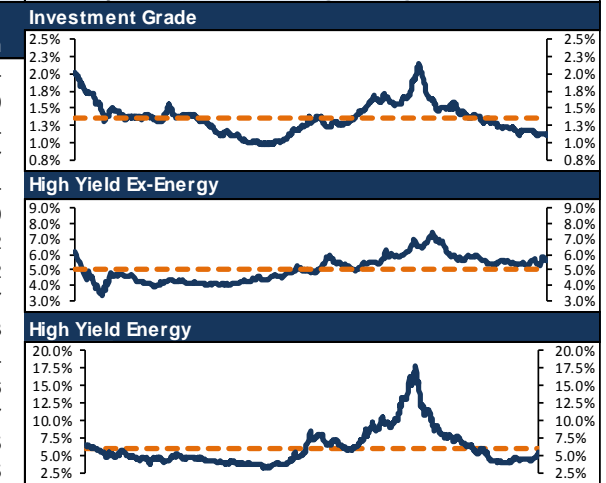
	Current	-1M	-6M
Composite	1.84	1.95	2.41
California	2.04	2.19	2.69
New York	2.09	2.06	2.47
Texas	1.99	2.13	2.62
Florida	1.99	2.08	2.59
Pennsylvania	2.34	2.52	3.06
Minnesota	1.94	2.03	2.51
Puerto Rico	13.86	11.77	11.53

UNITED STATES	10-Year Yield Forecasts (%)					
	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Survey Month: June						
RBC Capital Markets (June)	2.30	2.65	3.00	3.15	3.40	3.50
Bloomberg Median	2.47	2.62	2.80	2.90	3.02	3.20
Bloomberg 1-Month Prior	2.50	2.67	2.80	2.94	3.05	3.20

Global Sovereign 10Y Yields

	Current	-1m	-6m
USA	2.13	2.25	2.54
Canada	1.46	1.44	1.79
Brazil	4.71	4.84	5.54
Mexico	3.54	3.56	4.27
UK	1.00	1.01	1.34
France	0.59	0.75	0.69
Germany	0.23	0.33	0.22
Italy	1.87	2.09	1.82
Spain	1.34	1.53	1.37
Portugal	2.87	3.13	3.73
Greece	5.26	5.91	7.24
Japan	0.04	0.04	0.06
Australia	2.37	2.41	2.87
Hong Kong	1.18	1.26	2.05
China	3.51	3.66	3.15

Credit Spreads (5-Years; Average: Orange line)



Corporate Bonds

	Spread Performance			Total Return Data (%)			
	OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Treasury Index	-	-	-	2.57	1.04	3.13	(0.19)
Investment Grade	115	-0.1	-0.9	4.45	1.51	5.22	4.13
AA	70	-0.4	-0.6	3.79	1.48	4.52	2.13
A	92	-1.0	-3.0	4.17	1.61	4.94	3.19
BBB	145	0.5	-0.1	4.87	1.43	5.64	5.49
Barclays US HY Index	378	3.7	4.8	4.63	(0.05)	4.88	12.57
S&P Pref. Stock Index	-	-	-	5.04	0.40		(0.51)
Bank Loans (BKLN)	-	-	-	0.40	-0.76	0.53	5.18

Sector Performance

	Avg Maturity (yrs)	Spread Performance			Total Return Data (%)			
		OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Basic Materials	12.2	143	0.0	-1.3	6.36	1.76	7.11	7.85
Communications	13.8	149	-0.1	-1.4	5.17	2.15	6.12	4.10
Cons. Discretionary	10.7	116	-0.9	-2.9	4.08	1.46	4.77	3.06
Cons. Staples	11.4	116	-0.9	-2.5	4.19	1.80	5.01	2.20
Energy	11.6	162	4.9	8.1	4.23	0.37	5.02	7.52
Financials	7.7	107	-1.3	-1.9	3.84	1.11	4.45	3.78
Health Care	12.2	101	-1.4	-4.1	5.22	2.13	6.08	3.64
Industrials	12.9	92	-0.7	-2.1	4.54	1.87	5.38	3.42
Technology	11.0	86	-0.2	-1.6	4.44	1.66	5.35	3.77
Utilities	14.6	114	-1.0	-2.6	5.00	2.35	5.88	3.60

CDS Price & Spread Levels

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	59.6	62.2	67.8	91.2
CDX High Yield	191bps	333.8	326.6	354.2	478.3

Portfolio Advisory Group – U.S. Fixed Income Strategies

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