



Daily Market View

Friday, March 16, 2018

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	3.06	3.06
10-year UST	2.83	2.83
5-year UST	2.63	2.63
2-year UST	2.28	2.29
6-Mo UST	1.94	1.94
3-Mo UST	1.77	1.77
10-year TIPS	0.74	0.74
10-year Corp	4.05	4.03
10-yr AAA Muni	2.51	2.51
3M LIBOR	2.15	2.15
Fed Funds	1.50	1.50
Prime Rate	4.50	4.50
CPI (YoY)	2.20	2.00
NASDAQ*	7,482	7,482
DJIA*	24,874	24,758
S&P 500*	2,747	2,749
Oil	\$61.39	\$61.19
Gold	\$1,319.70	\$1,317.80
Copper	\$312.60	\$311.10
Yen / US Dollar	¥105.73	¥106.34
Euro / \$US	€ 1.2325	€ 1.2305

Link: [Bloomberg Economic Calendar](#)

*Previous Day

Client Friendly Publications

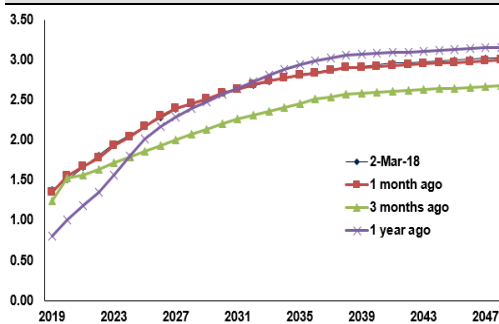
Municipal Market Insight [March 2018](#)

Credit Market Insight [February 2018](#)

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

Global Insight Monthly [March 2018](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

Treasury yields are slipping this morning as concerns mount over the potential ouster of yet another key White House Official, National Security Advisor H.R. McMaster. Short-term yields have been buoyed by rate hike expectations with the Fed set to hike for the 6th time this cycle next week. The yield curve continues to flatten, and the 2s/10s spread at 52 bps is now almost back to its 10-year low. Yesterday's import price inflation data came in hotter than expected at 0.4% m/m, but the y/y print decelerated a bit from 3.6% to 3.5% as the dollar appreciated over 1% in February. While the weak dollar is undoubtedly an inflationary driver, the impact is mostly felt on core goods, which is still in a deflationary state, and is a smaller portion of the economy than services. And yesterday our new National Economic Advisor Larry Kudlow gave a boost to the dollar after saying 'I would buy King Dollar and I would sell gold,' which appears to conflict with Treasury Secretary Mnuchin's talking down of the dollar, but also would put a deflationary spin on currency movements in the U.S.

Keep an eye on investment grade credit spreads in the coming days. The spread on the Bloomberg Barclays IG Index has now widened 31 bps since the start of February, and is now at its widest since September of 2017. This contrasts with just a 20 bp move in the high yield bond index. This is somewhat unusual given that credit risk concerns are typically more pronounced in the high yield market. But it appears the move in IG spreads could be attributable to changing index composition, notably the addition of the new CVS bonds, making CVS/Aetna the 11th largest issuer in the IG index, and given how wide the spreads were on those bonds in addition to existing paper, it added some additional widening to the index over the last 2 weeks.

Municipals

With most primary deals priced, secondary markets focused on high muni/Treasury ratios, and as a result munis firmed 1bp 10 years and out.

Muni fund flows remained positive for the second consecutive week as investors added \$339 million for the week ended March 14.

Connecticut is considering transferring lottery proceeds to the state's teachers' pension which could potentially boost the plan's funding ratio to 70%. The lottery currently accounts for approximately \$350 million annually.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Housing Starts m/m	Feb.	-2.7%	-	9.7%	<p>Consensus estimates are for housing data to show a mild retreat after January's sharp increases, however, we view the risk to these estimates to the upside as some groundbreaking was likely held up by January's harsh weather.</p> <p>As with housing data, manufacturing data will likely surge in February as activity was impaired by weather related disruptions in January.</p> <p>JOLTS jobs data will provide some clarity behind the acceleration in hiring to start 2018, and our expectations are that the data will show a flat pace of net hiring's, but the layoffs rate will continue to fall as employers hold onto existing workers in expectations of continued economic growth.</p> <p>Consumer sentiment is expected to hover around cycle highs as more people see the lower personal-income tax withholding rates hit their paychecks.</p> <p>Consensus estimates are for housing data to show a mild retreat after January's sharp increases, however, we view the risk to these estimates to the upside as some groundbreaking was likely held up by January's harsh weather.</p>
Building Permits m/m	Feb.	-4.1%	-	7.4%	
Industrial Production m/m	Feb.	0.4%	-	-0.1%	
Capacity Utilization	Feb.	77.7%	-	77.5%	
JOLTS Jobs Openings	Jan.	5,917k	-	5,811k	
U. of Michigan Sentiment	Mar. P	99.3	-	99.7	
Housing Starts m/m	Feb.	-2.7%	-	9.7%	
Building Permits m/m	Feb.	-4.1%	-	7.4%	

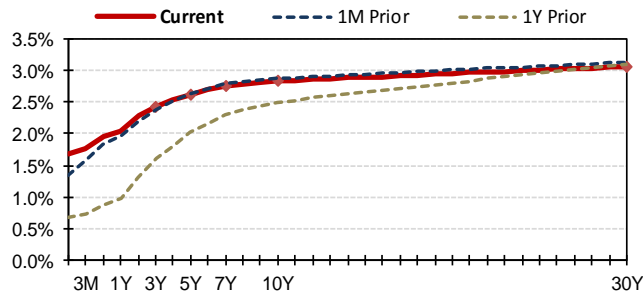
Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Empire Manufacturing	Mar.	15.0	22.5	13.1	<p>Fed Not Overly Concerned About 'Imported Inflation'</p> <p>Import prices continue to run at a 3.5% year-over-year pace, as a depreciating dollar makes imported goods more expensive, but despite the fact that the U.S. is still a net importer, the rise in the prices of imported goods isn't giving Fed policy makers any worries that inflation is going to materially run higher. Bloomberg economists point out that Fed policy makers really aren't as worried about imported inflation as a result of moves in the dollar, and are more worried about homegrown inflation as a result of higher wages and increased domestic demand.</p> <p>When you break down the Consumer Price Index, you can see that inflation is more benign than headline numbers; core services inflation has decelerated the last 3 years, while core goods inflation has accelerated but almost directly as a result of a 6% depreciation of the dollar. The big risk to monetary policy will continue to be wage gains that stoke demand pull inflation, causing the Fed to get more aggressive with the pace of rate hikes and prematurely killing off the current economic expansion.</p>
Philadelphia Fed Business Outlook	Mar.	23.0	22.3	25.8	
Initial Jobless Claims	Mar. 10	228k	226k	231k	
Continuing Claims	Mar. 3	1,903k	1,879k	1,870k	
Import Price Index y/y	Feb.	3.5%	3.5%	3.6%	
NAHB Housing Market Index	Mar.	72	70	72	
Bloomberg Consumer Comfort	Mar. 11	-	56.2	56.8	



	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	3.29%	3.36%	2.59%	2.38%	2.25%	-	1.82%	1.76%	57.5%
6M	3.47	3.47	2.66	2.44	2.31	-	1.77	1.94	63.3%
1Y	3.78	3.67	2.81	2.57	2.42	1.45%	1.96	2.04	66.7%
2Y	4.46	4.09	3.05	2.79	2.66	1.58	2.23	2.28	74.5%
3Y	4.97	4.45	3.25	2.98	2.83	1.73	2.33	2.43	79.3%
4Y	5.37	4.74	3.41	3.10	2.96	1.84	2.35	2.53	82.5%
5Y	5.71	5.02	3.58	3.23	3.10	2.01	2.53	2.63	85.8%
7Y	6.29	5.53	3.89	3.47	3.24	2.23	2.84	2.68	87.4%
8Y	6.51	5.72	4.00	3.55	3.35	2.33	-	2.73	89.1%
9Y	6.71	5.89	4.11	3.64	3.46	2.43	-	2.78	90.8%
10Y	6.92	6.05	4.21	3.73	3.55	2.51	3.12	2.83	92.5%
15Y	7.87	6.71	4.56	4.05	3.64	2.83	-	2.89	94.3%
20Y	8.29	6.95	4.66	4.15	3.85	2.97	3.17	2.95	96.2%
25Y	8.53	6.68	4.63	4.14	3.92	3.04	3.20	3.01	98.1%
30Y	8.46	6.68	4.59	4.12	3.96	3.09	-	3.06	100.0%

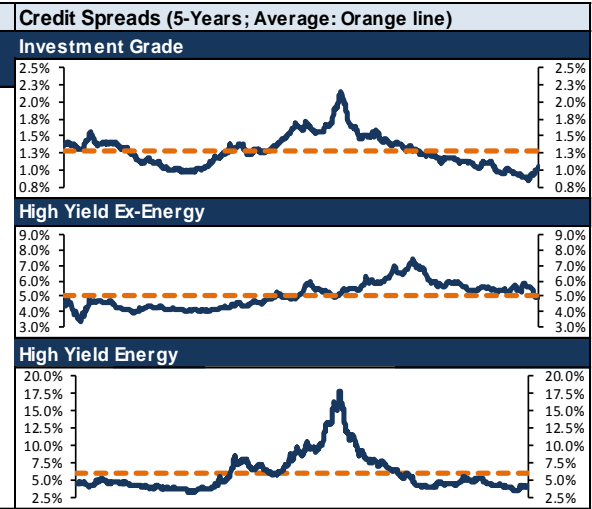
Treasury Yield Curve



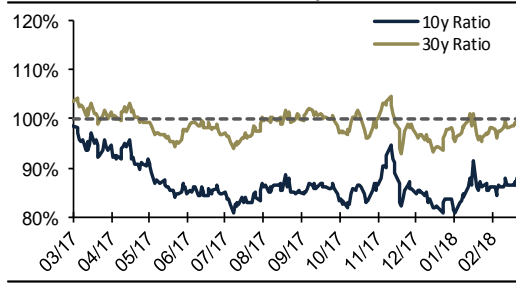
3-Month UST Curve Spread Trends

	Now	Avg
2s - 5s	35	37
2s - 10s	55	60
5s - 30s	44	52
7s - 10s	10000001	8
10s - 30s	24	29

Global Sovereign 10Y Yields	Current	-1m	-6m
USA	2.83	2.88	2.20
Canada	2.14	2.32	2.09
Brazil	4.89	4.83	4.37
Mexico	4.25	4.19	3.45
UK	1.44	1.58	1.30
France	0.81	0.95	0.71
Germany	0.57	0.70	0.43
Italy	1.95	1.98	2.07
Spain	1.34	1.46	1.60
Portugal	1.73	1.99	2.78
Greece	4.14	4.24	5.39
Japan	0.03	0.05	0.02
Australia	2.69	2.92	2.74
Hong Kong	1.78	#NA	1.44
China	3.83	3.87	3.60



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



	GO Municipal Benchmark 10y Yields (%)		
	Current	-1M	-6M
Composite	2.51	2.49	1.88
California	2.68	2.62	2.08
New York	2.44	2.45	2.19
Texas	2.68	2.65	2.08
Florida	2.65	2.63	2.02
Pennsylvania	3.15	3.11	2.44
Minnesota	2.58	2.62	2.03
Puerto Rico	13.86	11.77	11.53

Corporate Bonds

	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Treasury Index	-	-	-	-
Investment Grade	95	3.2	#####	-17.45
AA	62	5.1	#####	-12.68
A	88	4.8	#####	-8.33
BBB	130	4.0	#####	-10.96
Barclays US HY Index	341	1.5	#####	-10.73
S&P Pref. Stock Index	-	-	-	-
Bank Loans (BKLN)	-	-	-	-

Sector Performance

	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Basic Materials	112	2.3	#####	-22.79
Communications	136	3.2	#####	-15.89
Cons. Discretionary	95	2.6	#####	-13.33
Cons. Staples	95	2.7	#####	-14.52
Energy	122	2.4	#####	-17.05
Financials	79	4.9	#####	-0.18
Health Care	90	3.5	#####	-18.01
Industrials	82	3.1	#####	-14.42
Technology	76	2.2	#####	-22.62
Utilities	94	0.4	#####	-21.41

UNITED STATES	10-Year Yield Forecasts (%)					
	1Q2018	2Q2018	3Q2018	4Q18	1Q19	2Q19
Survey Month: February						
RBC Capital Markets	2.80	3.00	3.15	3.30	3.45	3.60
Bloomberg Median	2.75	2.85	2.95	3.00	3.10	3.22
Bloomberg 1-Month Prior	2.57	2.70	2.80	2.90	3.00	3.10

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	54.1	51.4	49.5	61.9
CDX High Yield	191bps	329.5	318.8	307.9	324.8

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."