



# Daily Market View

Friday, June 14, 2019

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	1-week Prior
<b>Federal Reserve</b>		
Fed Funds	2.50	2.50
Inflation (1-month prior)	1.57	1.49
3m Libor	2.43	2.45
<b>Treasuries</b>		
3-Month	2.14	2.27
2-year	1.85	1.85
5-year	1.84	1.85
10-year	2.09	2.08
30-year	2.59	2.57
<b>Corporates</b>		
<b>Investment Grade</b>		
<b>IG Index</b>	<b>3.35</b>	<b>3.37</b>
AAA	2.93	2.95
AA	2.74	2.76
A	3.06	3.08
BBB	3.69	3.71
<b>Speculative Grade</b>		
<b>HY Index</b>	<b>6.12</b>	<b>6.24</b>
BB	4.65	4.75
B	6.22	6.36
<b>Preferreds</b>		
Hybrids	5.74	5.75
Fixed-rate	5.78	5.79
<b>Municipals</b>		
3-year	1.50	1.49
10-year	1.88	1.86
15-year	2.23	2.19
Long	2.70	2.66
<b>Equities</b>		
S&P 500	2,892	2,873
Dow Jones	26,107	25,984
NASDAQ	7,837	7,742
<b>Commodities</b>		
Oil	\$52.15	\$53.99
Gold	\$1,352	\$1,341

## Rates

The appetite for yield remains robust despite the recent rally. Yesterday's auction for 30 year Treasury debt was bid to the lowest yield since October of 2016, with \$16 billion of debt awarded at a yield of 2.607%, inside the when issued yield of 2.611%. Primary dealers were awarded the smallest share of the auction in 2019, while indirect bidders earned the highest percentage of the auction at 60.8%. The bid to cover ratio, which is a gauge of investor demand for the auction, was 2.32x which was the strongest demand since October of last year when the 30-year yield was 3.36%.

## Credit

(6/13) Investment corporate bonds are regaining their mojo with ETF users. Investors have added nearly \$1.8 billion to the iShares iBoxx \$ Investment Grade Corporate Bond ETF, ticker LQD, over the last six trading days marking the fund's best streak over that span since July 2016. The \$33 billion ETF took in about \$460 million on Monday, its second-largest inflow this year. Investment-grade corporate bonds have been on a tear over the past week amid prospects that major central banks will cut rates to boost economic growth.

## Munis

The benchmark 10-year muni weakened by 1bp, ending the trading day at 1.66%. The muni rally has slowed this month with munis returning 0.07% MTD.

California lawmakers passed a \$147.8B FY2020 budget, which begins July 1st. The budget projects borrowing of \$5.9B, an increase from May's original \$5.7B, while special fund spending increased to \$61.1B, up from \$60.8B.

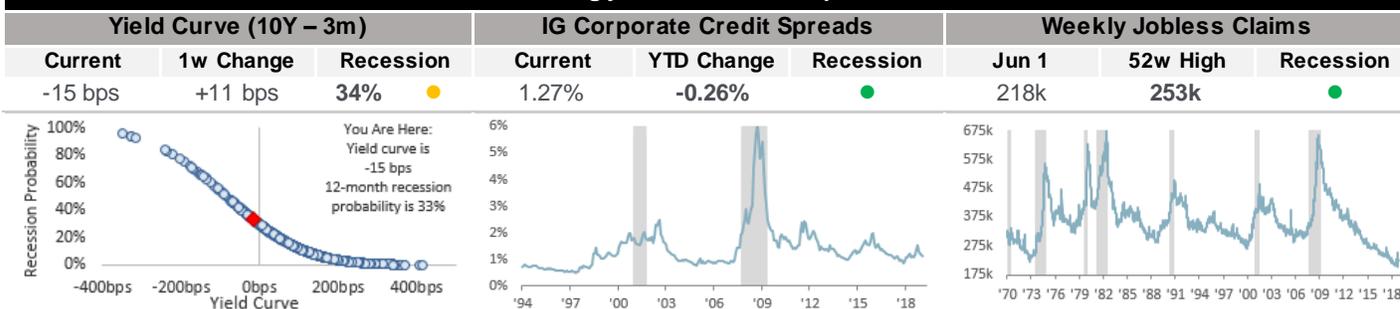
The pace of new state and local government bond sales may increase after requests for trading tickers for newly-issued municipal securities rose in May for the fifth straight month. The request for municipal bond CUSIPs rose 41.4% from the month earlier, according to CUSIP Global Services, which is run by S&P Market Intelligence.

Investors added \$778M to muni funds, marking the 23rd straight week of investor inflows. The quest for yield was evident as high-yield funds took in \$371M.

Link: [Bloomberg Economic Calendar](#)

# Strategy & Economics

## Recession Watch Dashboard – Yield curve flashing yellow, but credit spreads & the labor market look solid



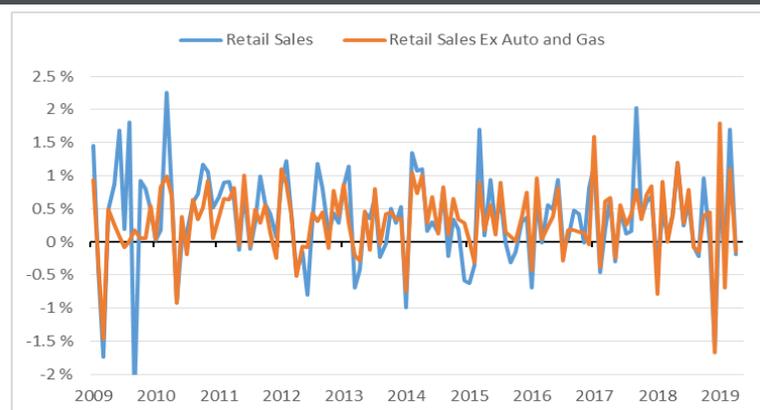
**Our Thoughts:** The **yield curve** has inverted for the second time this year. **Investment grade credit spreads** have widened again on stock market volatility, but remain below the 2019 high of 157bps over Treasuries; **jobless claims** have yet to show any signs of stress.

Source: RBC WM, Bloomberg; Recession probability based on NY Fed Yield Curve Model

### Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
<b>Retail Sales Advance m/m</b>	May	0.6%	-	-0.2%	<b>Retail sales unexpectedly declined in April</b> , following a strong run in March. Weaker discretionary spending may be a result of a \$0.55 increase in gas prices since January, however consumer spending will most likely improve in the near future as interest rates are lowered. We would expect to see auto sales increase as a result of this as well.
<b>Retail Sales Ex Auto and Gas m/m</b>	May	0.4%	-	-0.2%	
<b>Industrial Production m/m</b>	May	0.2%	-	-0.5%	
<b>Capacity Utilization</b>	May	78.0%	-	77.9%	

#### Chart: Retail Sales – Performance Affected by Auto and Gas?



Source: RBC Wealth Management, Bloomberg

**U.S. factory production fell for the third time in the past four months.** The impending trade dispute with China is a major factor here, raising prices and causing heavy concern among corporations. If auto sales pick up throughout the remainder of the year as is expected, machinery and motor vehicle production can be expected to pick up as well.

### Prior Session Highlights & Analysis

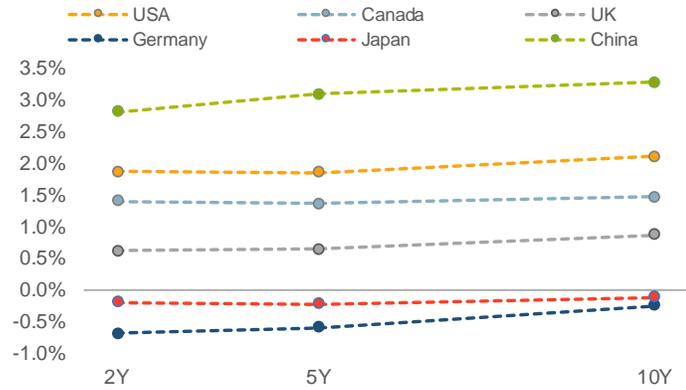
Event	Period	Survey	Actual	Prior	Our Thoughts
<b>Import Price Index y/y</b>	May	-1.2%	<span style="color: red;">-1.5%</span>	-0.2%	<b>U.S. import prices fell 0.3% last month</b> , marking the first time they have fallen since December. The current strong dollar can be attributed to this as it keeps import costs in check, but with its strength beginning to ease this decline shouldn't last.
<b>Export Price Index y/y</b>	May	-	<span style="color: red;">-0.7%</span>	0.3%	
<b>Initial Jobless Claims</b>	June	215k	<span style="color: red;">222k</span>	218k	

Filings for unemployment benefits unexpectedly climbed to a five-week high. It is too early to conclusively say, but this could be a sign of a potential cooling in the labor market.

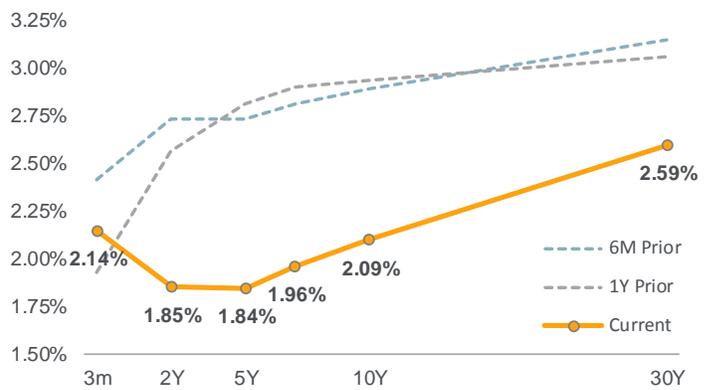
### Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	2.14	2.01	1.85	1.84	1.96	2.09	-	-	-	2.59
	Agencies	2.28	2.10	1.92	1.95	2.11	2.32	2.58	2.81	2.88	2.88
	AAA Munis	1.32	1.35	1.37	1.41	1.48	1.65	2.02	2.19	2.36	2.43
IG Corp	AA	2.30	2.27	2.21	2.39	2.61	2.87	3.25	3.54	3.64	3.65
	A	2.44	2.40	2.37	2.56	2.80	3.11	3.56	3.84	3.83	3.81
	BBB	2.67	2.64	2.67	2.98	3.31	3.69	4.22	4.54	4.51	4.42
HY Corp	BB	3.23	3.50	3.87	4.59	5.06	5.50	5.98	6.35	6.44	6.43
	B	3.87	4.17	4.61	5.46	5.99	6.42	6.92	7.35	7.34	7.33

### Global Sovereign Yields



### U.S. Treasury Yield Curve



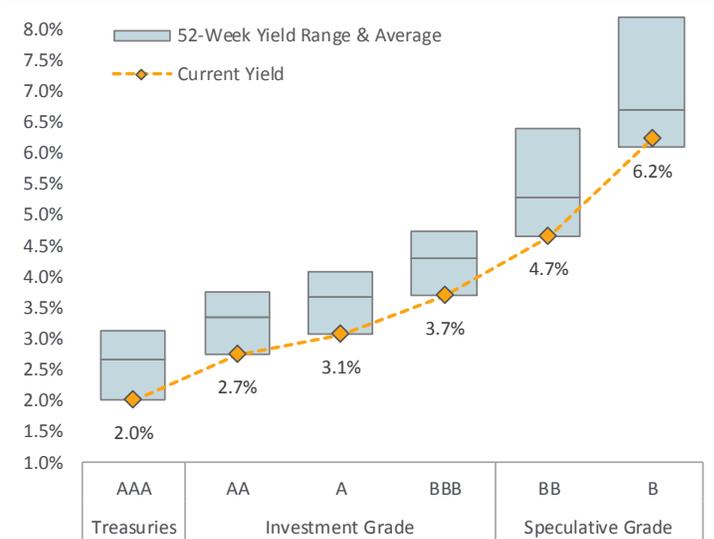
Rate Forecasts	Current	2019	2020	2021
Fed's 'Dot Plot'	2.50%	2.50%	2.75%	2.75%
Market Pricing	2.50%	1.75%	1.50%	1.50%
Our View	2.50%	2.00%	2.00%	2.00%

	10-Year Treasury Yield Forecasts			
	Q219	Q319	Q419	Q120
Consensus (May)	2.47%	2.57%	2.65%	2.70%
RBC Capital Markets	Under Review			

### Corporates

Sector	1w Chng	Year-to-Date Performance
<b>Treasuries</b>	0.01%	4.6
<b>Investment Grade</b>		
Index	0.13%	7.9
AA	0.09%	5.8
A	0.09%	7.3
BBB	0.17%	8.8
<b>Speculative Grade</b>		
Index	0.38%	8.9
BB	0.46%	9.2
B	0.38%	9.0
<b>Preferred Shares</b>		
Fixed-Rate	0.16%	10.7
Hybrids	0.23%	10.5
<b>Equities</b>		
S&P 500	0.69%	16.5

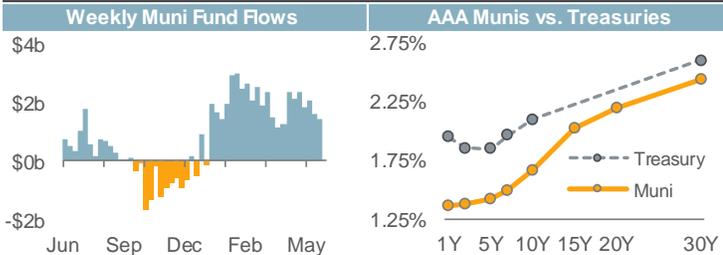
### Corporate Bond Yields by Credit Quality



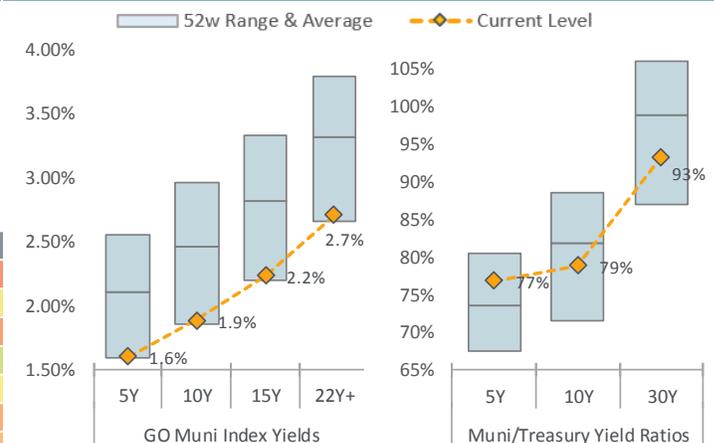
### Credit Spreads over Treasuries (bps)

	Current	5Y Low	5Y Avg	5Y High
Investment Grade	126	85	127	215
Speculative Grade	395	303	441	839

### Municipals



### Muni Yields & Muni/Treasury Ratios Over the Past Year



### Select State Benchmark Yields

CA	1.90%	PA	2.21%	AZ	1.94%
NY	1.97%	OH	2.07%	CT	2.05%
TX	2.08%	VA	1.95%	NC	1.95%
FL	2.11%	MD	1.91%	MI	2.19%
WA	1.94%	NJ	2.44%	WI	2.02%
IL	2.60%	CO	2.24%	OR	1.96%
MA	1.98%	GA	2.01%	MN	1.97%

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

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