



Daily Market View

Friday, December 14, 2018

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	3.15	3.17
10-year UST	2.88	2.91
5-year UST	2.72	2.76
2-year UST	2.73	2.76
6-Mo UST	2.54	2.55
3-Mo UST	2.40	2.41
10-year TIPS	1.05	1.07
10-year Corp	4.66	4.66
10-yr AAA Muni	2.44	2.44
3M LIBOR	2.40	2.78
Fed Funds	2.25	2.25
Prime Rate	5.25	5.25
CPI (YoY)	2.20	2.90
NASDAQ*	7,070	7,070
DJIA*	24,597	24,597
S&P 500*	2,651	2,651
Oil	\$52.18	\$52.58
Gold	\$1,237.50	\$1,242.70
Copper	\$273.25	\$276.25
Yen / US Dollar	¥113.62	¥113.63
Euro / \$US	€ 1.1289	€ 1.1361

Link: [Bloomberg Economic Calendar](#)

*Previous Day

Client Friendly Publications

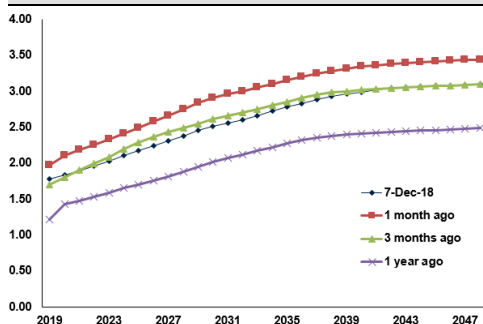
Municipal Market Insight [December 2018](#)

Credit Market Insight [November 2018](#)

Global Insight Weekly [December 13, 2018](#)

Global Insight Monthly [2019 Outlook](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

Treasury yields are dropping this morning on resurfacing investor concerns over global growth – the 10Y yield is down 3 bps. Regional auto sales in Europe slowed, PMI data was skewed lower by the “yellow vest” protests in France, and in China, and industrial production and retail sales both decelerated.



In the U.S., much of the recent decline has been attributable to lower inflation expectations, with breakeven rates, or the difference between real yields on inflation linked bonds and nominal treasury rates, falling to the lowest levels in over a year. The drop has been fairly drastic, with the 10-year breakeven falling from as high as 2.17% in October to just 1.84% today, and the 5-year breakeven falling from 2.07% to just 1.63% today. This means that the market believes inflation over the next 5 and 10 years will average just 1.63% and 1.84%, respectively – which lowers the need for excess compensation for holding longer-term debt, as purchasing power is better maintained in a lower-inflation environment.


Much of this is likely attributable to expectations that the Fed has the ability to stamp out inflation, as well as expectations that above-trend growth in 2018 is not sustainable enough to trigger longer periods of above-target inflation. The drop in breakeven rates have also plunged in recent weeks following comments from more dovish Fed officials, who have stated that inflation risks are now more skewed to the downside.

Municipals

Longer-dated munis lost 1bp on Thursday ending the day at 3.17%. The Bloomberg Barclays Index has given back some of last month's gains and is returning 0.55% YTD.

Investors pulled \$317M from muni mutual funds for the week ended Wednesday, the twelfth straight week of outflows.

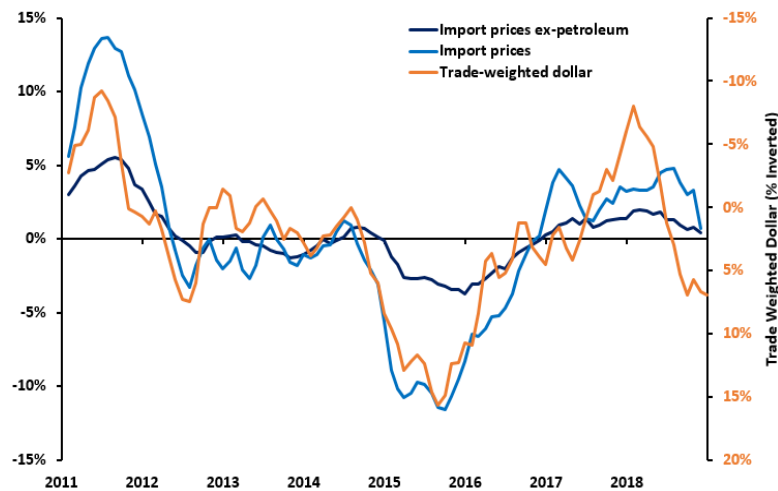
Verity Health System, which filed for Chapter 11 bankruptcy on August 11 reached an agreement with Santa Clara County, CA where the county would purchase two of Verity's six hospitals. Verity had \$459.2M in long-term debt and \$254M of pension liabilities as of June 30, 2017.

 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Retail Sales m/m	Nov.	0.1%	-	0.8%	The nosedive in oil prices in November will weigh heavily on headline retail sales, however lower prices at the pump will help support solid growth in discretionary spending during the holiday shopping season which is reflected in the 'core' retail sales data.
Retail Sales ex. Auto & Gas m/m	Nov.	0.4%	-	0.3%	
Industrial Production m/m	Nov.	0.3%	-	0.1%	Industrial production growth is expected to rebound in November from a soft print in the prior month and growth in aggregate manufacturing hours which is a proxy for the manufacturing component in industrial production remained solid.
Capacity Utilization	Nov.	78.6%	-	78.4%	

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Initial Jobless Claims	Dec. 8	226k	206k	231k	Import prices saw sharp declines on both a headline and a 'core' basis as dollar appreciation and plummeting oil prices deflated import prices in November. The tug-of-war continued between cost-push inflationary pressures from tariffs and easing price pressures from a strong dollar -- with the latter outweighing the former, for at least one month. While oil prices may have stabilized, easing some of the downward pressure, underlying dynamics point to further dollar strengthening in the near term. Widening interest rate differentials between the U.S. and other advanced economies and an increased appetite for safe-haven assets are expected to prop up the dollar in 2019 according to Bloomberg intelligence.
Continuing Claims	Dec. 1	1,649k	1,661k	1,631k	
Import Price Index m/m	Nov.	-1.0%	-1.6%	0.5%	
Import Price Index ex. Petroleum m/m	Nov.	-0.1%	-0.3%	0.2%	



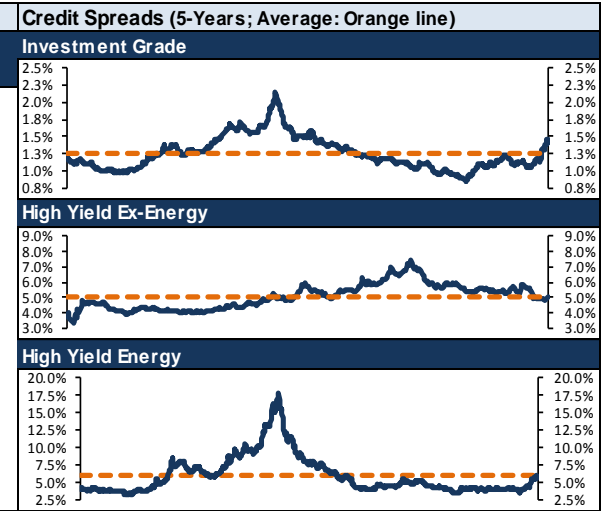
Source: RBC Wealth Management, Bloomberg

Looking at the data, ex-petroleum import prices declined in the month (-0.3% vs. 0.2% prior) and also underperformed consensus expectations for a 0.1% drop. The modest increase in the ex-petroleum index over the last 12 months indicates that dollar appreciation has helped to ease import prices pressures recently. This trend should continue in the near term as the dollar strengthens, unless China and the U.S. fail to reach a broader trade accord by March 1. A ramp-up in hostilities between the two countries would likely include an increase in the rate on tariffs levied in September from 10% to 25%, as well as another round of broad tariffs on Chinese goods -- which would greatly increase import costs.

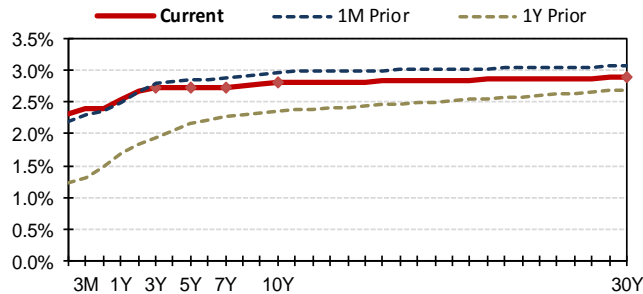


Treasury Yields									
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	4.72%	4.04%	3.30%	2.99%	2.80%	-	2.41%	2.40%	76.3%
6M	4.90	4.19	3.37	3.04	2.85	-	2.56	2.54	80.7%
1Y	5.26	4.48	3.50	3.15	2.96	1.79%	2.63	2.67	84.9%
2Y	5.90	5.02	3.75	3.37	3.18	1.89	2.73	2.73	86.8%
3Y	6.31	5.37	3.90	3.47	3.27	1.94	2.76	2.72	86.4%
4Y	6.64	5.63	4.01	3.54	3.35	2.00	2.81	2.72	86.5%
5Y	6.92	5.87	4.14	3.62	3.45	2.06	2.89	2.72	86.5%
7Y	7.39	6.30	4.40	3.80	3.54	2.20	3.24	2.80	88.9%
8Y	7.56	6.46	4.50	3.87	3.62	2.28	-	2.80	89.1%
9Y	7.70	6.60	4.59	3.95	3.70	2.36	-	2.84	90.4%
10Y	7.83	6.73	4.68	4.02	3.76	2.44	3.29	2.88	91.7%
15Y	8.38	7.19	5.02	4.38	3.82	2.78	-	2.95	93.8%
20Y	8.58	7.37	5.17	4.51	4.03	3.00	3.38	3.02	95.8%
25Y	8.47	7.28	5.13	4.46	4.18	3.15	3.40	3.08	97.9%
30Y	8.41	7.27	5.07	4.44	4.22	3.21	-	3.15	100.0%

Global Sovereign 10Y Yields			
	Current	-6m	-1m
USA	2.88	2.94	3.13
Canada	2.13	2.27	2.43
Brazil	5.16	6.13	5.50
Mexico			
UK	1.26	1.33	1.51
France	0.71	0.76	0.78
Germany	0.26	0.42	0.40
Italy	2.98	2.73	3.49
Spain	1.40	1.35	1.62
Portugal	1.66	1.90	1.96
Greece	4.25	4.56	4.48
Japan	0.04	0.04	0.11
Australia	2.47	2.72	2.70
Hong Kong	2.22	2.30	2.35
China	3.37	3.64	3.42



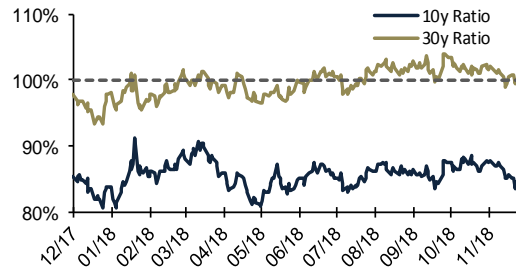
Treasury Yield Curve



3-Month UST Curve Spread Trends		
2s - 5s	Now 0	Avg 10
2s - 10s	Now 14	Avg 25
5s - 30s	Now 38	Avg 35
7s - 10s	Now 10000003	Avg 7
10s - 30s	Now 24	Avg 21

Corporate Bonds	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Treasury Index	-	-	-	-
Investment Grade	134	-2.6	12.8	42.10
AA	78	-3.7	9.9	52.94
A	110	-6.0	6.8	48.65
BBB	175	-2.8	6.7	42.28
Barclays US HY Index	430	-2.3	2.9	22.86
S&P Pref. Stock Index	-	-	-	-
Bank Loans (BKLN)	-	-	-	-

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



GO Municipal Benchmark 10y Yields (%)			
	Current	-6M	-1M
Composite	2.44	2.50	2.76
California	Real Time	2.53	2.88
New York	Real Time	2.51	2.71
Texas	Real Time	2.66	2.92
Florida	Real Time	2.63	2.85
Pennsylvania	Real Time	3.18	3.26
Minnesota	Real Time	2.65	2.81
Puerto Rico	Real Time	11.53	11.77

Sector Performance	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Basic Materials	165	-2.1	14.8	40.71
Communications	164	-3.4	6.6	16.54
Cons. Discretionary	145	-0.8	15.1	56.64
Cons. Staples	145	-2.5	14.3	51.90
Energy	166	-2.1	10.0	34.19
Financials	119	-2.4	18.5	64.60
Health Care	120	-3.1	11.9	32.47
Industrials	122	-3.0	6.2	53.01
Technology	108	-4.3	13.2	34.08
Utilities	132	-1.6	9.2	36.10

UNITED STATES	10-Year Yield Forecasts (%)						
	Survey Month: <i>November</i>	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
RBC Capital Markets		3.30	3.45	3.60	3.70	3.75	3.90
Bloomberg Median		3.21	3.31	3.40	3.46	3.50	3.53
<i>Bloomberg 1-Month Prior</i>		3.17	3.30	3.33	3.42	3.49	3.52

	Pre-Crisis Low	CDS Price & Spread Levels		
		Current	-1M	-6M
CDX Investment Grade	30bps	77.6	71.7	61.4
CDX High Yield	191bps	408.4	390.6	333.5

Portfolio Advisory Group – U.S. Fixed Income Strategies

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