



Daily Market View

Thursday, January 17, 2019

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	3.06	3.07
10-year UST	2.72	2.72
5-year UST	2.55	2.54
2-year UST	2.55	2.54
6-Mo UST	2.49	2.49
3-Mo UST	2.41	2.42
10-year TIPS	0.90	0.91
10-year Corp	4.54	4.54
10-yr AAA Muni	2.24	2.24
3M LIBOR	2.40	2.77
Fed Funds	2.50	2.50
Prime Rate	5.50	5.50
CPI (YoY)	1.90	2.90
NASDAQ*	7,035	7,035
DJIA*	24,207	24,207
S&P 500*	2,616	2,616
Oil	\$51.32	\$52.31
Gold	\$1,289.90	\$1,293.80
Copper	\$266.05	\$267.35
Yen / US Dollar	¥108.84	¥109.09
Euro / \$US	€ 1.1393	€ 1.1392

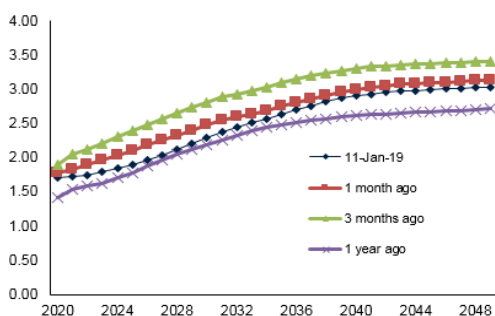
Link: [Bloomberg Economic Calendar](#)

*Previous Day

Client Friendly Publications

Municipal Market Insight	January 2019
Credit Market Insight	November 2018
Global Insight Weekly	January 10, 2018
Global Insight Monthly	2019 Outlook

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Credit

(01/16) Despite all the talks of an economic slowdown, investors are falling over themselves to buy high yield bonds. The chart below shows the percentage change in high yield credit spreads over rolling 7-trading day ranges since the 2009 recession ended. The 15% move tighter since January 3rd, or -15%, was the biggest rally we have seen.



While, as we have stated, credit spreads in high yield aren't terribly attractive both on an historical basis, and probably for this stage of the credit cycle, wider credit spreads over the last 6 weeks have been attractive relative to equities.

For example, the last time credit spreads were 5.37% over Treasuries, the S&P was closer to 2,100. With equities settling down and rallying to start the year, perhaps credit is simply playing catch up. We wouldn't chase here, but that's our best explanation for the torrid pace of HY spread tightening at the moment

Municipals

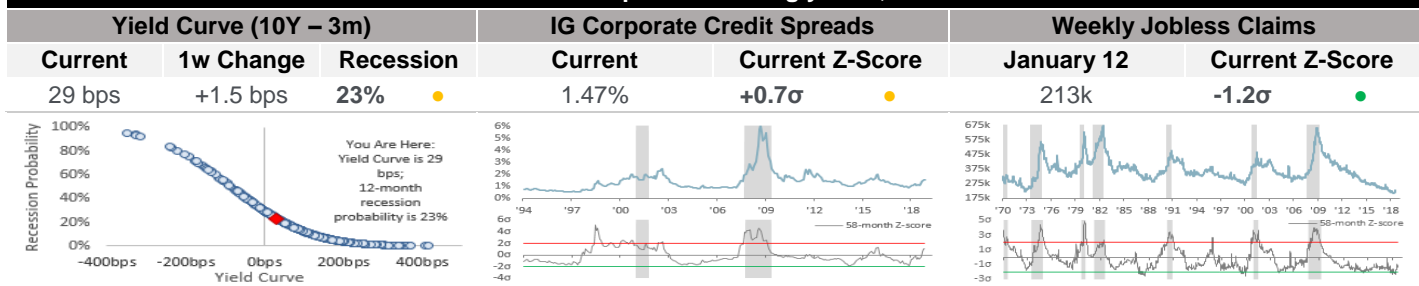
High grade municipal benchmark yields were generally 1 basis point higher for most maturities in sympathy with a slightly weaker Treasury market. The primary market was relatively quiet after a bulk of this week's calendar closed accounts yesterday.

A two-day hearing focused on Puerto Rico's latest debt-cutting plan for the sales tax backed bonds (COFINA) began on Wednesday. US District Court Judge Laura Taylor Swain began the hearings by saying that there is no decision that she could make that would avoid inflicting pain on some groups and set aside several hours to hear objections from more than two dozen people over a plan to restructure more than \$17 billion of COFINA debt.

The current restructuring plan rests on an agreement over how to divide up sales-tax revenue that was originally allocated to pay the securities. Most of the major players in the bankruptcy case support the plan Swain is considering, and bondholders voted overwhelmingly to accept the sales-tax debt restructuring.

Strategy & Economics

Recession Watch Dashboard – Yield curve & credit spreads flashing yellow, labor market remains solid



RBC Wealth Management Global Portfolio Advisory Committee: Economic Indicator Scorecard

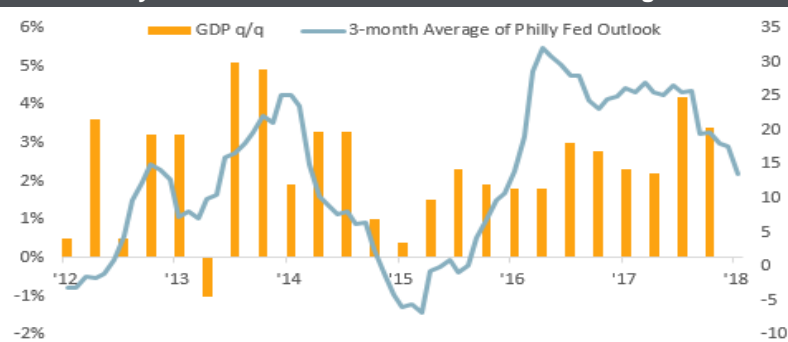


Source: RBC WM, Bloomberg; Recession probability based on NY Fed Yield Curve Model; Z-score measures significance of changes in trend over specified periods

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Philadelphia Fed Business Outlook	Jan	9.5	17.0	9.4	<ul style="list-style-type: none"> - Housing Starts & Building Permits delayed today by government shutdown. - After the Empire Region Fed Manufacturing Survey missed expectations by another large amount on Tuesday, the Philadelphia Fed Business Outlook released this morning should ease investor fears as it recovered strongly to 17.0; the Atlanta Fed GDPNow model currently has Q4 GDP estimated at 2.8%. - Jobless claims remain low, suggesting that neither 2018 year-end market volatility, nor the government shutdown is yet impacting the labor market.
Initial Jobless Claims	Jan 12	220k	213k	216k	

Chart: Philly Fed Business Outlook Points to Moderating Growth

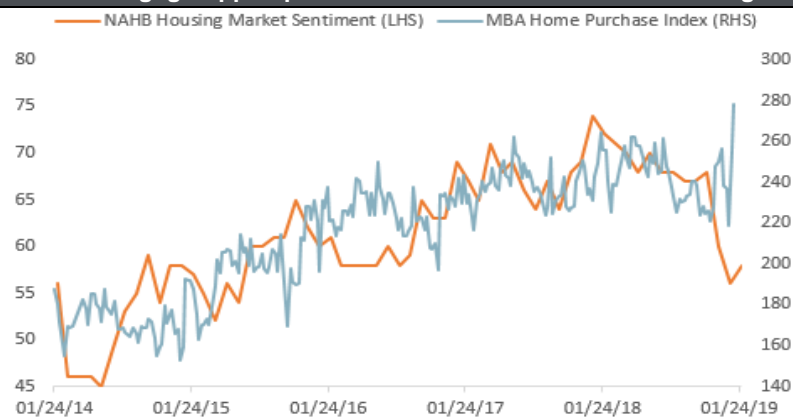


Source: RBC WM, Bloomberg

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
MBA Mortgage Appl.	Jan 11	-	+14%	+23.5%	<p>Housing Activity Picks Up</p> <ul style="list-style-type: none"> - With Retail Sales reports on hold until the government shutdown ends, consumers are seeming at least buying houses. Weekly mortgage applications have jumped in recent weeks as strong labor markets and rising wages, combined with falling mortgage rates, are perhaps driving the move. - Chart: Weekly mortgage applications jumped another 14%, after 24% the previous week as there are signs of life in the housing market to start 2019. Helping this has been the 0.50% decline in the average 30Y mortgage rate since November. - Import prices didn't fall as far as expected as rising natural gas prices offset the dollar strength that has been a drag of late.
Import Price Index m/m	Dec	-1.3%	-1.0%	-1.6%	
NAHB Housing Sent.	Jan	56	58	56	

Chart: Mortgage Apps Spike as Homebuilder Sentiment Ticks Higher



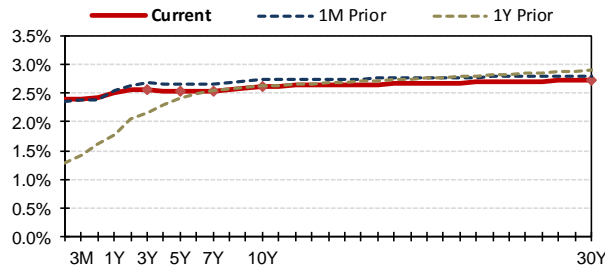
Source: RBC Wealth Management, Bloomberg



Treasury Yields										
	High Yield Corp			Investment Grade Corp		Government Related			% of Curve Captured	
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury		
3M	4.54%	3.98%	3.14%	2.83%	2.63%	-	2.40%	2.41%	78.8%	
6M	4.74	4.13	3.20	2.87	2.67	-	2.39	2.49	81.4%	
1Y	5.13	4.41	3.33	2.96	2.76	1.70%	2.37	2.56	83.5%	
2Y	5.79	4.93	3.56	3.14	2.91	1.74	2.59	2.55	83.3%	
3Y	6.20	5.26	3.71	3.24	2.99	1.77	2.56	2.53	82.6%	
4Y	6.50	5.50	3.83	3.32	3.08	1.81	2.61	2.54	82.9%	
5Y	6.77	5.73	3.98	3.42	3.19	1.87	2.70	2.55	83.2%	
7Y	7.22	6.15	4.26	3.64	3.30	1.99	3.13	2.62	85.6%	
8Y	7.38	6.31	4.37	3.73	3.40	2.08	-	2.63	86.1%	
9Y	7.52	6.45	4.47	3.81	3.49	2.16	-	2.68	87.6%	
10Y	7.64	6.58	4.56	3.89	3.57	2.25	3.19	2.72	89.0%	
15Y	8.17	7.04	4.95	4.28	3.63	2.66	-	2.81	91.8%	
20Y	8.39	7.27	5.16	4.46	3.91	2.91	3.36	2.89	94.5%	
25Y	8.28	7.24	5.13	4.41	4.10	3.05	3.36	2.98	97.3%	
30Y	8.20	7.24	5.08	4.38	4.16	3.11	-	3.06	100.0%	

Global Sovereign 10Y Yields			Credit Spreads (5-Years; Average: Orange line)	
	Current	-6m	-1m	
USA	2.83	2.86	2.86	
Canada	1.99	2.12	2.04	
Brazil	5.71	5.63	5.12	
Mexico				
UK	1.31	1.26	1.26	
France	0.63	0.63	0.73	
Germany	0.23	0.34	0.26	
Italy	2.72	2.46	2.96	
Spain	1.35	1.25	1.40	
Portugal	1.76	1.73	1.65	
Greece	4.22	3.83	4.32	
Japan	0.01	0.04	0.03	
Australia	2.29	2.66	2.44	
Hong Kong	2.05	2.13	2.10	
China	3.10	3.48	3.38	

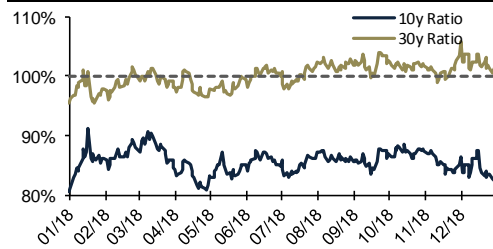
Treasury Yield Curve



3-Month UST Curve Spread Trends	
2s - 5s	19999979 Avg 5
2s - 10s	Now 18 Avg 21
5s - 30s	Now 53 Avg 41
7s - 10s	Now 11 Avg 8
10s - 30s	Now 34 Avg 25

Corporate Bonds	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Treasury Index	-	-	-	-
Investment Grade	140	-2.1	-1.1	62.73
AA	76	-3.8	-5.0	58.33
A	113	-2.6	-1.7	59.15
BBB	181	-2.2	-2.7	58.77
Barclays US HY Index	436	-2.0	-15.2	36.25
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	2.25	2.43	2.44
California	Real Time	2.44	2.59
New York	Real Time	2.48	2.37
Texas	Real Time	2.60	2.57
Florida	Real Time	2.55	2.53
Pennsylvania	Real Time	3.02	2.92
Minnesota	Real Time	2.51	2.50
Puerto Rico	Real Time	11.53	11.77

Sector Performance	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Basic Materials	169	-1.4	-2.4	61.57
Communications	169	-1.6	-1.7	31.35
Cons. Discretionary	154	-1.9	0.2	82.90
Cons. Staples	154	-2.5	0.0	81.14
Energy	168	-1.8	-4.8	55.41
Financials	121	-3.6	-2.5	77.67
Health Care	126	-1.4	-0.6	54.69
Industrials	128	-1.6	0.1	78.32
Technology	110	-4.1	-4.0	52.57
Utilities	150	3.7	11.0	71.25

UNITED STATES	10-Year Yield Forecasts (%)					
	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Survey Month: December						
RBC Capital Markets	3.30	3.45	3.60	3.70	3.75	3.90
Bloomberg Median	3.05	3.20	3.27	3.30	3.30	3.33
Bloomberg 1-Month Prior	3.21	3.31	3.40	3.46	3.50	3.53

	Pre-Crisis Low	CDS Price & Spread Levels		
		Current	-1M	-6M
CDX Investment Grade	30bps	76.6	82.0	60.4
CDX High Yield	191bps	403.7	428.4	335.5

Source: All data from Bloomberg, priced as of previous market close, Treasury data as of 8:30am EST

Portfolio Advisory Group – U.S. Fixed Income Strategies

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