



# Daily Market View

Friday, September 20, 2019

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	1-week Prior
<b>Federal Reserve</b>		
Fed Funds	2.00	2.25
Inflation (1-month prior)	1.58	1.57
3m Libor	2.16	2.14
<b>Treasuries</b>		
3-Month	1.87	1.96
2-year	1.74	1.80
5-year	1.66	1.75
10-year	1.79	1.90
30-year	2.23	2.37
<b>Corporates</b>		
<b>Investment Grade</b>		
<b>IG Index</b>	<b>3.00</b>	<b>3.12</b>
AAA	2.60	2.74
AA	2.43	2.55
A	2.74	2.86
BBB	3.31	3.44
<b>Speculative Grade</b>		
<b>HY Index</b>	<b>5.57</b>	<b>5.69</b>
BB	4.03	4.13
B	5.57	5.70
<b>Preferreds</b>		
Hybrids	5.55	5.57
Fixed-rate	5.58	5.64
<b>Municipals</b>		
3-year	1.48	1.47
10-year	1.76	1.76
15-year	2.04	2.03
Long	2.44	2.46
<b>Equities</b>		
S&P 500	3,007	3,007
Dow Jones	27,095	27,220
NASDAQ	8,183	8,177
<b>Commodities</b>		
Oil	\$58.72	\$54.85
Gold	\$1,501	\$1,489

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## Rates

Treasury yields are flat across the curve as there was no real incremental news to trade on overnight; the 2 year yield sits at 1.74%, the 10 year yield at 1.78%, and the 30 year yield remains just south of 2.23%. The data calendar is unusually quiet to end the week, but we do have multiple Fed speakers on tap today. Already, St. Louis Fed President Bullard has published a piece noting that his dissent in favor of a 50bp cut was to insure against slower inflation.

We may also get an explanation for a no change dissent later today when Boston Fed President Rosengren speaks on the credit cycle, with his previous stance against easing in part due to financial stability concerns. Perhaps the most anticipated speaker will be NY Fed President (& FOMC Vice-Chair) Williams on monetary policy rules and the lower bound of interest rates. Williams was in the majority voting for a 25bp cut on Wednesday. Dallas Fed President Kaplan will also speak in a moderated Q&A.

## Credit

Although high yield bond funds have experienced steady inflows this year as investors remain comfortable with credit risk amid dovish central banks, the 2<sup>nd</sup> rate cut of the year really accelerated the pace. Call it a junk pile, as the 2<sup>nd</sup> interest rate cut from the Fed this week had investors piling into junk bond funds to the tune of \$3.3 billion which marks the largest such weekly inflow since the first week of February.

The midweek Fed meeting didn't stop action in the primary market as borrowers have been eager to meet the investor demand. New bond sales from high-yield issuers have been on a tear since after Labor Day with supply already above \$23 billion, nearly double last September's month-to-date tally. Year-to-date volume is outpacing last year's by over 28%.

High yield remains one of the best performing in fixed income with year-to-date returns of 11.72%, just behind investment grade with a 12.14% return, according to the Bloomberg Barclays indexes.

Investment-grade bond funds logged a seventh consecutive inflow this week, adding \$2.8 billion after posting the third-largest rate on record last week. U.S. leveraged loan funds took in \$24 million for the week, the first inflow since the week ended Nov. 14, 2018.

## Munis

Munis remained in positive territory for the second straight session, gaining as much as 3bps.

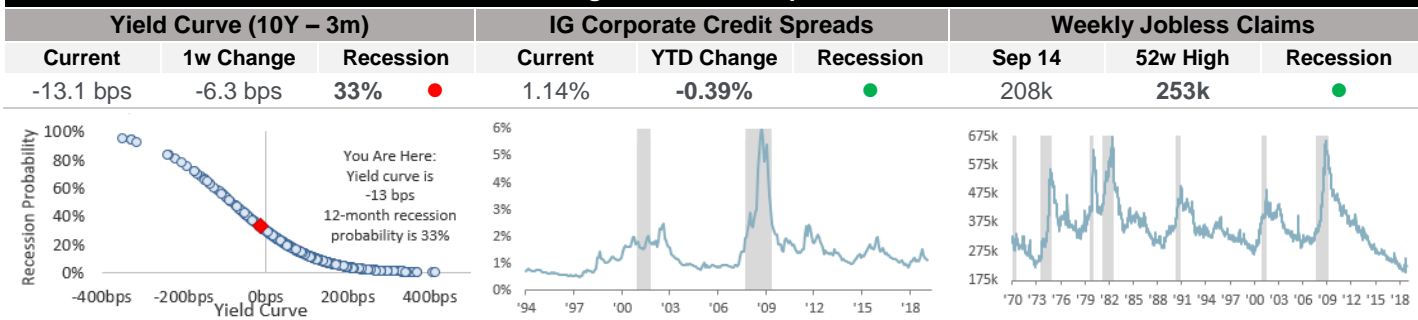
Investors added \$209M to muni funds, marking the 37th straight week of inflows albeit this week's inflow tally was the lowest this year.

Louisiana's outlook was revised to stable from positive by Moody's as a result of the significant improvement in the state's financial position including a \$500M surplus, signaling a potential near-term upgrade.

Link: [Bloomberg Economic Calendar](#)

# Strategy & Economics

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



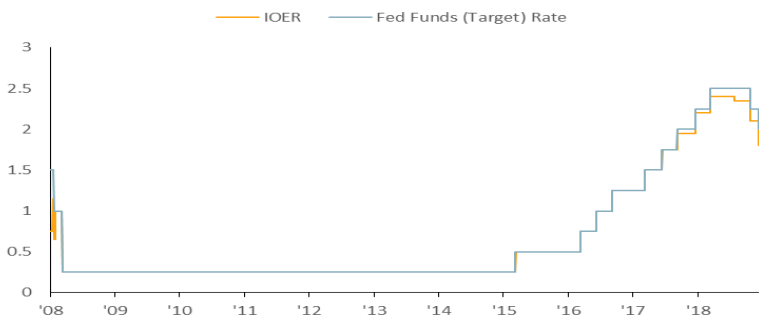
**Our Thoughts:** All major yield curves have turned negative in recent weeks & months. Investment grade credit spreads remain historically low; jobless claims also remain near all-time lows.

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
Fedspeak	Sep 20	-	-	-	No major data points are being released today.

### Chart: Interest Rate on Excess Reserves & Target Fed Funds Rate



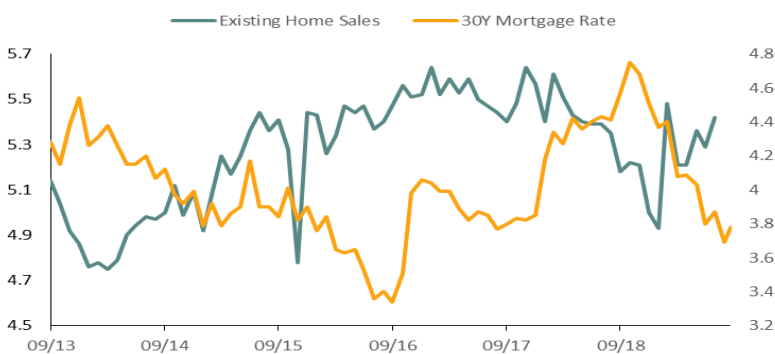
Source: RBC Wealth Management, Bloomberg

New York Fed President John Williams will be giving a presentation at a Swiss National bank conference on monetary policy rules and the lower bound on interest rates. With the repo market bursting overnight (it has now settled back) markets will look to see if he makes any comments regarding this. Eric Rosengren, President of the Boston Fed, will be at NYU's Stern School of Business discussing the credit cycle. Robert Kaplan of the Dallas Fed, the only one of these three who did not have a vote at the September 18 meeting, will be at a community forum hosted by the San Antonio Branch of the Dallas Fed.

## Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Philadelphia Fed Business Outlook	Sep	10.5	12.0	16.8	The Philadelphia Fed business outlook is firmer than expected. This suggests that consumers are still feeling relatively confident, and any declines can be more attributed to trade uncertainty.
Initial Jobless Claims	Sep 14	214k	208k	204k	Jobless claims have remained below 220k for several weeks now. They have steadily remained low and as for right now remain a bright spot in the current economy.
Leading Index	Aug	-0.1%	0.0%	0.5%	The LEI remained unchanged. Building permits were the largest contributor at 0.22, while ISM new orders was the largest laggard at -0.18.
Existing Home Sales	Aug	5.38m	5.49m	5.42m	The housing market had a very good month in August, as existing home sales add to the positive headline. Affordability has improved as interest rates have dropped, and consumers are finally starting to capitalize on that.

### Chart: Lower Mortgage Rates Encouraging Home Sales

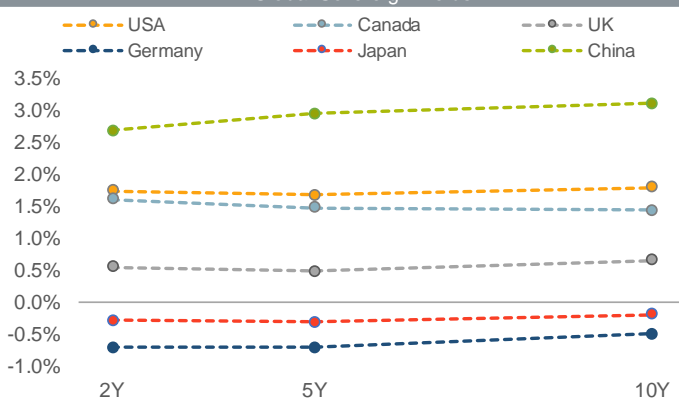


Source: RBC Wealth Management, Bloomberg

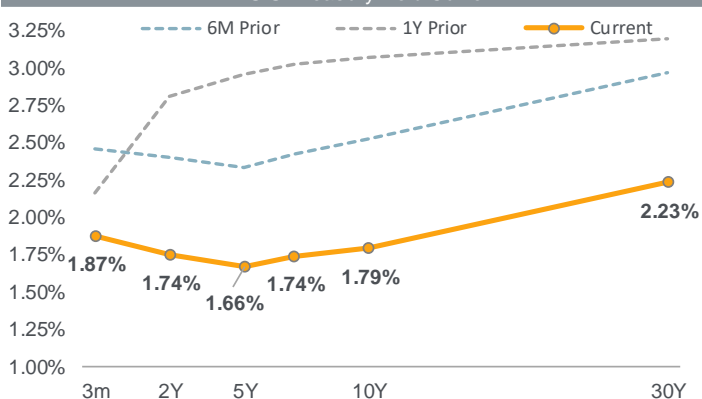
### Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Govt	Treasuries	1.87	1.86	1.74	1.66	1.74	1.79	-	-	-	2.23
	Agencies	1.99	1.90	1.79	1.74	1.83	2.00	2.21	2.45	2.56	2.59
	AAA Munis	1.27	1.30	1.30	1.29	1.38	1.54	1.81	1.95	2.14	2.19
IG Corp	AA	2.09	2.02	1.95	2.10	2.28	2.51	2.81	3.09	3.19	3.21
	A	2.21	2.16	2.13	2.31	2.49	2.74	3.14	3.41	3.42	3.40
	BBB	2.44	2.41	2.43	2.70	2.95	3.26	3.74	4.05	4.02	3.93
HY Corp	BB	3.06	3.15	3.33	3.93	4.40	4.88	5.44	5.89	5.97	5.94
	B	2.74	3.00	3.47	4.51	5.09	5.56	6.11	6.65	6.73	6.72

### Global Sovereign Yields



### U.S. Treasury Yield Curve

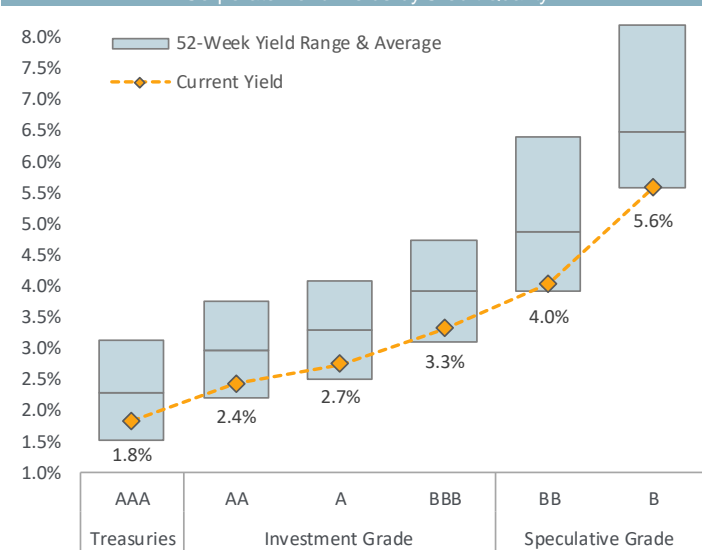


Fed Funds Forecasts	Current	2019	2020	2021	10Y Tsy Yield Forecasts	3Q19	4Q19	1Q20	2Q20
Fed's 'Dot Plot'	2.00%	2.00%	2.00%	2.00%	Consensus (August)	1.69%	1.67%	1.74%	1.80%
Market Pricing	2.00%	1.50%	1.25%	1.25%	RBC Capital Markets	1.50%	1.50%	1.70%	1.85%
Our View	2.00%	1.75%	1.50%	1.50%	Market Forwards	1.80%	1.81%	1.82%	1.84%

### Corporates

Sector	1w Chng	Year-to-Date Performance
Treasuries	0.84%	7.0
Investment Grade Index	1.15%	12.4
AA	1.04%	9.6
A	1.15%	11.5
BBB	1.16%	13.6
Speculative Grade Index	0.22%	11.8
BB	0.22%	12.8
B	0.39%	12.4
Preferred Shares		
Fixed-Rate	0.63%	14.3
Hybrids	1.04%	14.4
Equities		
S&P 500	-0.01%	21.7

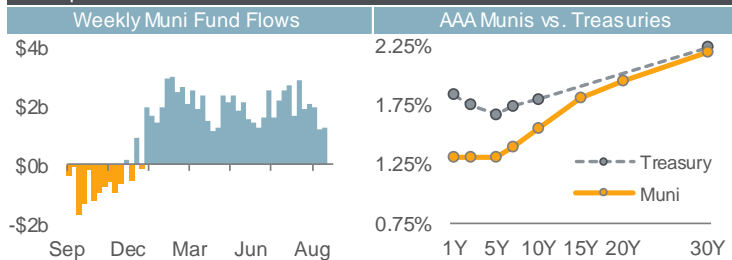
### Corporate Bond Yields by Credit Quality



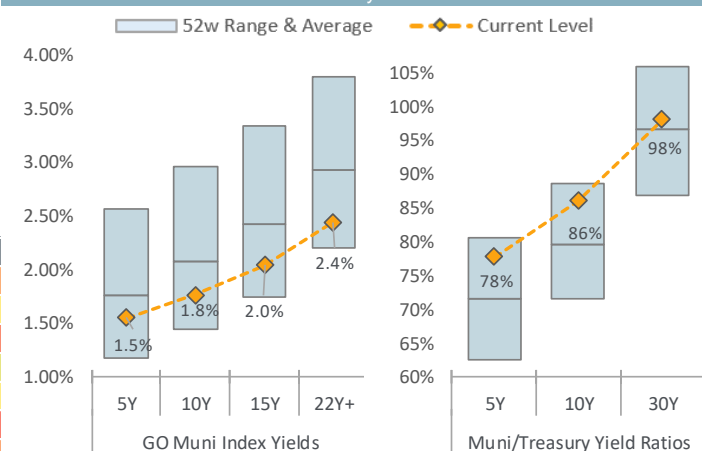
### Credit Spreads over Treasuries (bps)

	Current	5Y Low	5Y Avg	5Y High
Investment Grade	114	85	128	215
Speculative Grade	355	303	442	839

### Municipals



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



### Select State Benchmark Yields

CA	1.77%	PA	2.06%	AZ	1.83%
NY	1.84%	OH	1.89%	CT	1.89%
TX	1.92%	VA	1.79%	NC	1.80%
FL	1.97%	MD	1.76%	MI	1.98%
WA	1.78%	NJ	2.25%	WI	1.89%
IL	2.44%	CO	2.04%	OR	1.78%
MA	1.82%	GA	1.90%	MN	1.82%

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

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