



Daily Market View

Thursday, April 09, 2020

Portfolio Advisory Group – U.S. Fixed Income Strategies

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Market Snapshot	Today	Prior Session
3-month Libor	1.22%	1.31%
10-Year Treasury	0.76%	0.77%
S&P 500	2,761	2,750
IG Corporates	3.30%	3.39%
HY Corporates	9.39%	9.51%
Municipals	2.09%	2.15%

Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

Rates

A long weekend the next test?

There's a slight risk-off tone this morning with stocks indicated to open down about 0.75%, while Treasury yields are lower across the curve.

A long weekend may be the next test for traders who may be wary about holding risk assets as we have seen rallies fade for the last two Friday trading sessions. With respect to Treasuries, as the chart shows the wild swings in yields have faded as the Treasury volatility index has settled down to more-normal levels.

This morning the focus is on three key events: the first was jobless claims, which printed at another 6.6 million new claims, putting the 3-week total at about 16.8 million. Against a workforce of about 151 million people, that would put the unofficial unemployment rate around 11%. Beyond that, we'll watch the first look at consumer sentiment for April, and a speech from Fed Chair Powell.

Back to normal?

Treasury market volatility index back to January levels



Source: RBC Wealth Management, Bloomberg

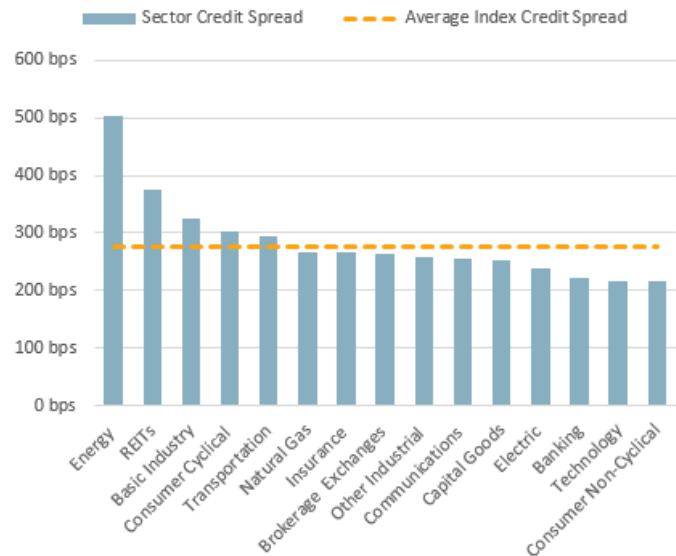
Credit

Credit Markets: Where does the risk lie?

We have talked at length about credit spreads—or the yield compensation over risk-free Treasuries—for both investment grade and high yield corporate bonds, which spiked to the highest levels since the financial crisis in March. They have since tightened from the peak as some optimism has returned to markets, but still remain at 10-year highs.

But what's driving that? It should be little surprise that the riskiest sector at the moment, energy, trades well above the index average. Additionally, the only other sectors that are trading at above-average spreads are mostly other cyclically-exposed ones.

Investment Grade Sector Credit Spreads



Source: RBC Wealth Management, Bloomberg

Municipals

Investors remained active for a fourth straight trading session leaving muni yields 5bps to 8bps firmer. The Bloomberg Barclays Muni Index gained 0.28% yesterday and is returning -0.47% YTD.

The University of Puerto Rico (UPR) withheld its March bond payment to the Trustee. UPR said it will withhold the payment until the current forbearance agreement, which expires May 29, is extended. UPR said it would pay the \$3.65 March 31 payment once an agreement is reached.

Port of Los Angeles cargo volume plummeted 31% YOY in March amid the outbreak of the coronavirus, which disrupted global supply chains including China, which accounts for a significant portion of cargo into the port.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
PPI Final Demand YoY	Mar	0.5%	1.3%	1.3%	<p>Jobless claims continue to soar as the pandemic lingers on. Claims from the prior week were revised even higher to near 6.9 million, up from 6.6 million. This brings the three week total to about 16.8 million Americans that have filed for unemployment.</p> <p>Consumer sentiment is poised for a large drop amid the current chaos. As the pandemic carries on, consumers have become increasingly less optimistic that the crisis will be short-lived, heavily weighing on sentiment. Consensus has the report at 75.0, but we would not be surprised to watch it fall even lower than that.</p>
PPI Ex Food and Energy YoY	Mar	1.2%	1.4%	1.4%	
Initial Jobless Claims	Apr 4	5500k	6606k	6867k	
U of Mich. Sentiment	Apr P	75.0	-	89.1	

Chart: Jobless Claims Remain at Historic Highs

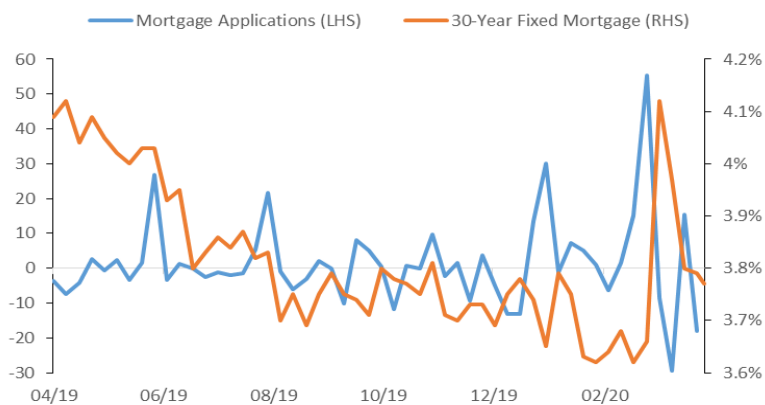


Source: RBC Wealth Management, Bloomberg

Prior Session Highlights & Analysis

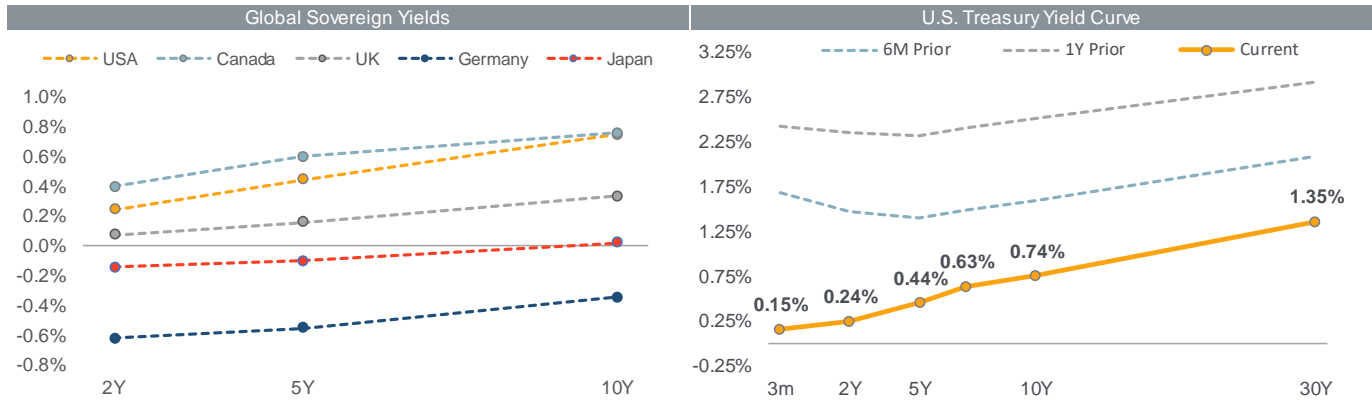
Event	Period	Survey	Actual	Prior	Our Thoughts
MBA Mortgage Apps.	Apr 3	-	-17.9%	15.3%	<p>Applications for loans to purchase a home dropped to the lowest level since 2015. Although 30-year fixed mortgage rates are almost a full percent lower than a year ago, stay at home orders are preventing potential homebuyers from purchasing.</p> <p>Bloomberg's Consumer Comfort survey suffered its largest drop on record, falling 6.4 points to 49.9 – a number not seen since October 2017. Stay at home orders, volatile markets, and record job losses are just a few of the events affecting consumer comfort levels at the moment.</p> <p>The Fed's meeting minutes presented no new forward guidance, but reiterated that the Fed wanted a "forceful" monetary policy response to the unprecedented risks we currently face due to the coronavirus.</p>
Bloomberg Consumer Comfort	Apr 5	-	49.9	56.3	
FOMC Meeting Minutes	Mar 15	-	-	-	

Chart: Homebuyers Stuck at Home, Purchases Decline

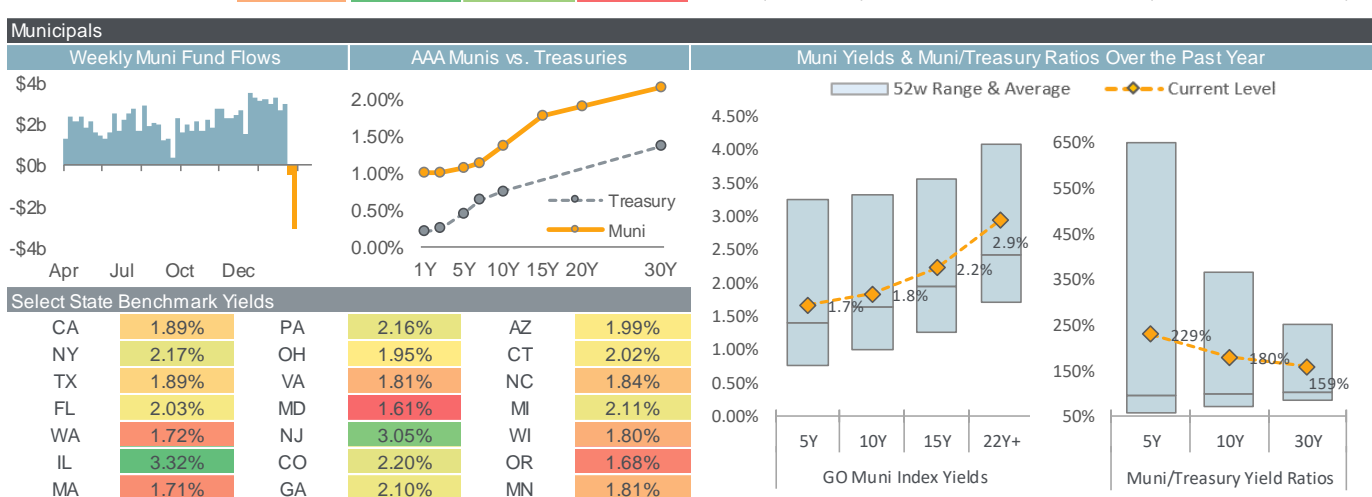
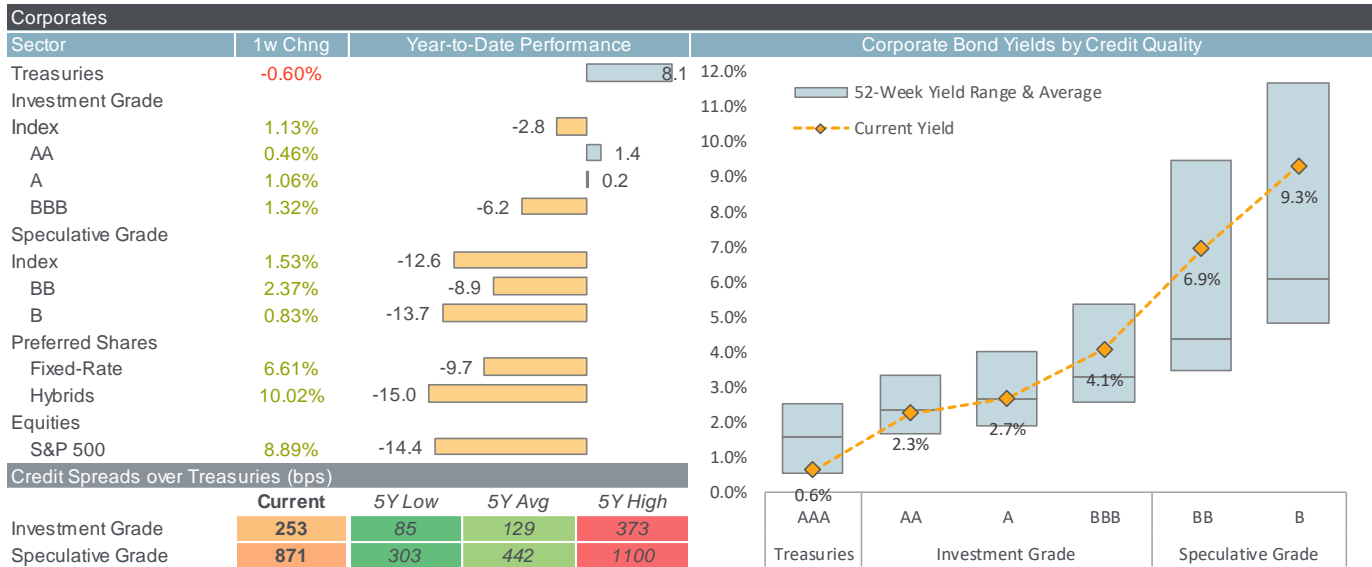


Source: RBC Wealth Management, Bloomberg

Federal Reserve & Sovereign Yields		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	0.15	0.20	0.24	0.44	0.63	0.74	-	-	-	1.35
	Agencies	0.37	0.40	0.40	0.77	1.08	1.36	1.67	1.99	2.13	2.20
	AAA Munis	0.99	0.99	1.01	1.06	1.12	1.36	1.77	1.91	2.08	2.17
IG Corp	AA	1.53	1.43	1.29	1.52	1.78	2.09	2.45	2.73	2.83	2.86
	A	1.82	1.73	1.69	1.99	2.28	2.59	2.93	3.20	3.23	3.22
	BBB	2.47	2.44	2.47	2.90	3.20	3.49	3.81	4.04	4.01	3.94
HY Corp	BB	5.22	5.32	5.43	5.73	6.03	6.37	6.90	7.33	7.49	7.55
	B	5.16	5.48	6.01	6.97	7.37	7.71	8.25	8.49	8.49	8.47



Fed Funds Forecasts	Current	2020	2021	2022	10Y Tsy Yield Forecasts	1Q20	2Q20	3Q20	4Q20
Fed's 'Dot Plot' (Dec)	0.25%	-	-	-	Consensus (Mar)	0.75%	0.83%	1.05%	1.20%
Market Pricing	0.25%	0.25%	0.25%	0.25%	RBC Capital Markets	1.00%	1.25%	1.50%	1.65%
Our View	0.25%	0.25%	0.25%	0.25%	Market Forwards	0.79%	0.82%	0.86%	0.90%



Source: RBC Wealth Management, Bloomberg Barclays Indexes, Federal Reserve

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