



Daily Market View

Friday, September 25, 2020

Portfolio Advisory Group – U.S. Fixed Income Strategies

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Market Snapshot	Today	Prior Session
3-month Libor	0.23%	0.23%
10-Year Treasury	0.66%	0.66%
S&P 500	3,246	3,206
IG Corporates	1.97%	1.94%
HY Corporates	5.83%	5.81%
Municipals	1.29%	1.30%

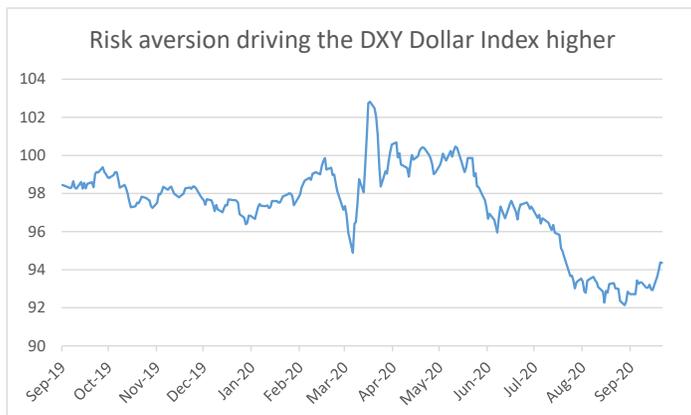
Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

Rates

The yield on the 30 year dropped a basis point yesterday—the biggest move across any maturity this week. It’s almost like the Fed launched yield curve control and forgot to tell anyone.

On the data front, housing numbers came in better than forecast but initial jobless claims were higher than expected and flat to the prior week. With mortgage rates so low, it’s not surprising to see housing strong—the lack of progress on jobless claims is concerning. Then again, with the Fed policy locked in, it’s hard to see how these data fluctuations have any importance for bond price formation.

There were some positive comments out of Washington on a fiscal stimulus pact, but the two parties remain far apart on total size and provisions. With the Supreme Court seat open and the election fast approaching it’s hard to see a lot of room for major stimulus.

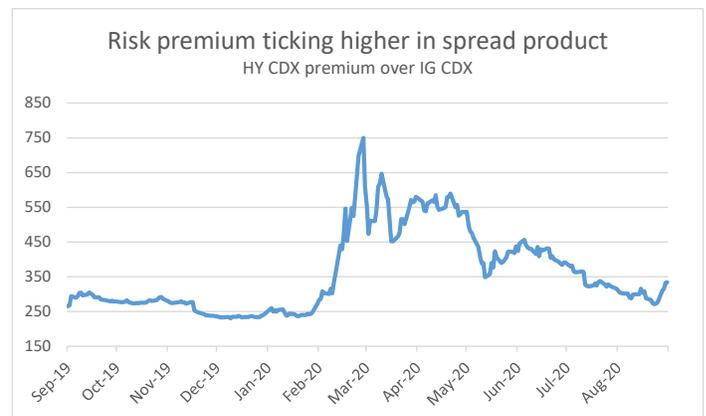


Source: RBC Wealth Management, Bloomberg

Credit

Credit spreads widened out slightly with yields higher by about 11 bps in High Yield and essentially flat in Investment Grade.

High yield bond funds saw \$4.1 billion in outflows this past week, almost on par with the \$5 billion weekly outflows we saw in early March. This week also saw the first High Yield new issue deal pulled since early July. The issuer was a single B-rated, energy company with negative free cash flow, so the pulled offering does not seem to portend a change in primary market demand. The large fund outflows are potentially concerned but with the Fed on hold and yields low everywhere, it seems likely that investors will be returning.



Source: RBC Wealth Management, CreditSights

Municipals

Municipals were once again unchanged in afternoon trading signaling investors have decided to remain on the sidelines amid recent market uncertainty.

The pace of cash investors added to municipal funds slowed significantly last week but remained positive for the 20th straight week with investors adding \$499 million down from the prior week’s \$1 billion of inflows.

The Virgin Islands pulled its \$1 billion Matching Funds offering after a group of retirees filed a lawsuit challenging the validity of the law approving the issuance of the bonds, the islands first offering in years.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Durable Goods Orders	Aug P	1.3%	-	11.4%	
Durables Ex Transportation	Aug P	1.1%	-	2.6%	

Chart: Nondefense Aircraft & Parts Index



Source: RBC Wealth Management, Bloomberg

Aircraft orders will be negative in August amid a greater amount of cancellations as opposed to new orders. The data isn't expected to weigh heavily on the headline as durables excluding transportation is actually projected less than the headline.

Prior Session Highlights & Analysis

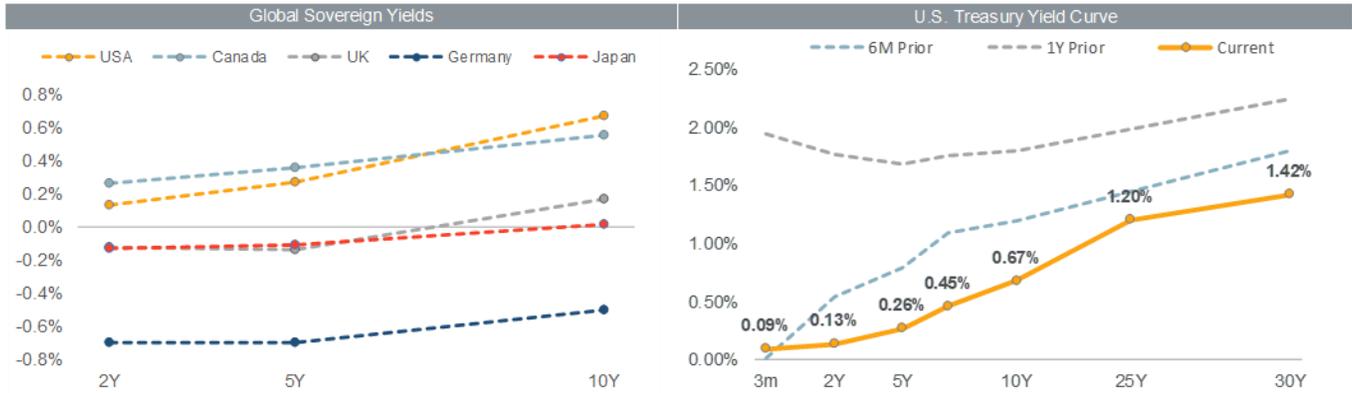
Event	Period	Survey	Actual	Prior	Our Thoughts
Initial Jobless Claims	Sep 19	840k	870k	866k	<p>U.S. jobless claims remained relatively unchanged, although slightly elevated compared to the prior week. The pace in which claims are declining continues to be slow, remaining roughly four times more than pre-COVID levels. Continuing claims fell less than expected, but nevertheless falling for the eighth straight week. Millions of Americans are either still unemployed or at risk of losing their job as businesses continue to struggle to stay afloat. Unless more government stimulus is made available, jobless claims may rise again as businesses are forced to let employees go.</p> <p>New home sales advanced for the fourth straight month, reaching a 14 year high. New single-family home sales continue to surge as a flurry of demand thanks to record-low mortgage rates drives sales</p>
Bloomberg Consumer Comfort	Sep 20	-	49.8	47.7	
New Home Sales	Aug	890k	1011k	965k	
Kansas City Fed Manf. Activity	Sep	14	11	14	

Chart: New Home Sales Reach 14 Year High

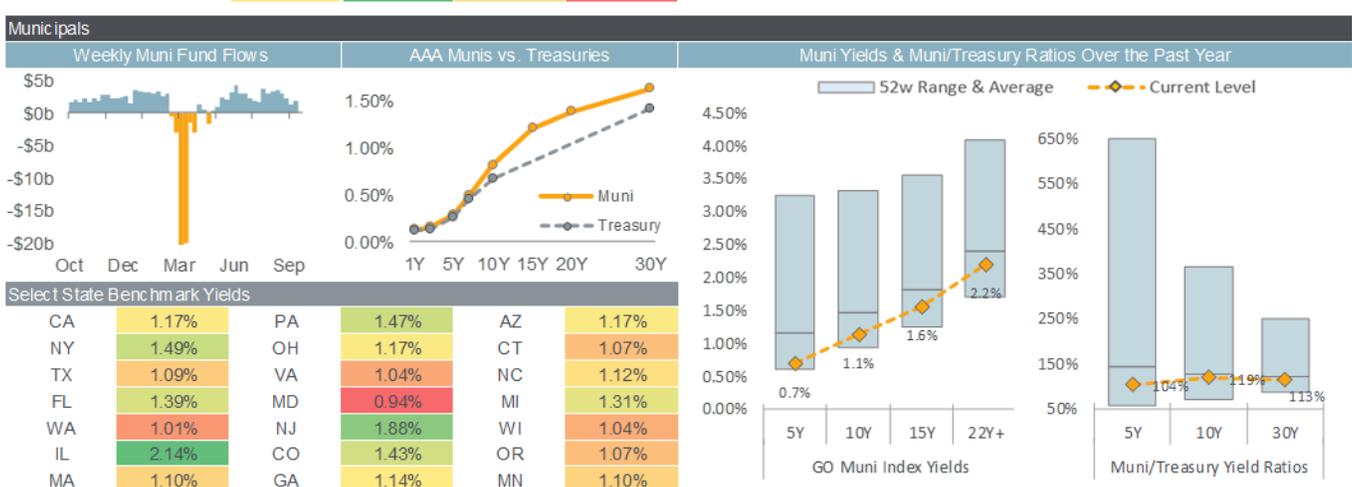
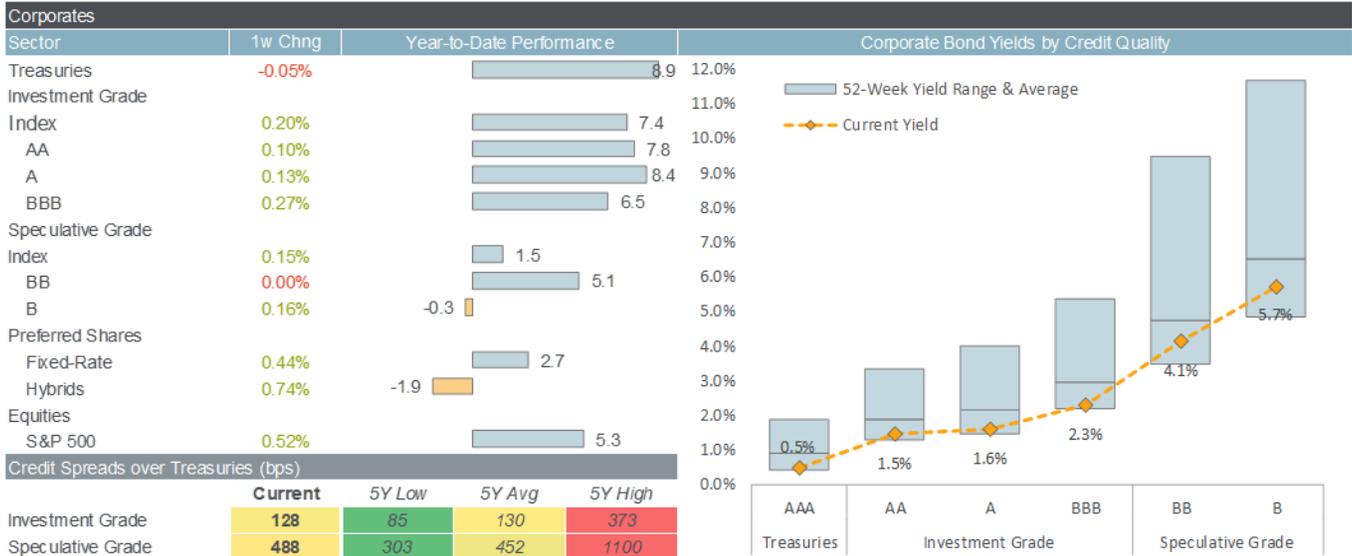


Source: RBC Wealth Management, Bloomberg

Federal Reserve & Sovereign Yields		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Govt	Treasuries	0.09	0.12	0.13	0.26	0.45	0.67	-	-	-	1.42
	Agencies	0.12	0.14	0.18	0.41	0.66	1.00	1.44	1.62	1.82	1.86
	AAA Munis	0.12	0.13	0.15	0.29	0.49	0.82	1.21	1.39	1.56	1.63
IG Corp	AA	0.19	0.24	0.29	0.63	0.99	1.44	2.02	2.26	2.49	2.53
	A	0.22	0.31	0.38	0.79	1.18	1.62	2.30	2.61	2.73	2.69
	BBB	0.52	0.62	0.70	1.18	1.62	2.11	2.82	3.21	3.23	3.11
HY Corp	BB	1.76	2.12	2.54	3.58	4.11	4.66	5.40	5.97	5.96	5.95
	B	2.09	2.66	3.35	4.67	5.14	5.66	6.48	7.10	7.11	7.08



Fed Funds Forecasts	Current	2020	2021	2022	10Y Tsy Yield Forecasts	3Q20	4Q20	1Q21	2Q21
Fed's 'Dot Plot' (Jun)	0.25%	0.25%	0.25%	0.25%	Consensus (August)	0.66%	0.76%	0.89%	0.99%
Market Pricing	0.25%	0.25%	0.25%	0.25%	RBC Capital Markets	0.65%	0.75%	0.80%	0.85%
Our View	0.25%	0.25%	0.25%	0.25%	Market Forwards	0.72%	0.76%	0.81%	0.85%



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

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