



Daily Market View

Thursday, October 29, 2020

Portfolio Advisory Group – U.S. Fixed Income Strategies

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Market Snapshot	Today	Prior Session
3-month Libor	0.21%	0.22%
10-Year Treasury	0.77%	0.75%
S&P 500	3,271	3,390
IG Corporates	2.00%	2.02%
HY Corporates	5.33%	5.34%
Municipals	1.41%	1.41%

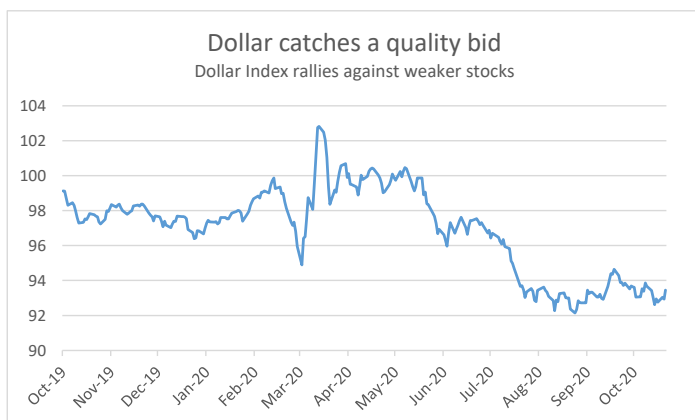
Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

Rates

Treasury yields were unchanged yesterday with 10 year yields at 77 bps and 30 year yields at 1.55%. The lack of positive price movement was a bit of a surprise, given that the major equity indices were down over 3%. That sort of stock sell-off typically triggers a flight-to-quality bid for bonds.

The lack of movement is largely a reflection of two factors. First, stocks are selling off in part on an increase in COVID cases globally. But bond investors already have the Fed at 0 rates for years, so most of the likely reaction on the monetary side is already priced in. The other reason bonds can look through the sell-off is the looming event risk of the election. A 3% drop in equities as a reason to buy bonds fades in comparison to the prospect of a unified government with an expansionist fiscal policy as a reason to sell bonds.

One asset that reacted as expected was the dollar which rallied on risk aversion.



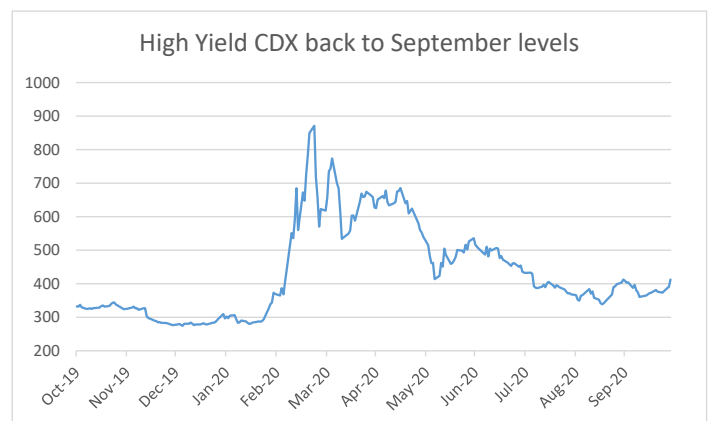
Source: RBC Wealth Management, Bloomberg

Credit

Spreads widened meaningfully in both Investment Grade and High Yield with the CDX indices wider by 3 and 22 bps respectively.

The primary market was slow with most issuers sitting out the sell off and waiting for better days to sell paper.

Credit remains a carry story for most issuers and for some higher risk or turnaround issuers, aggregate demand and top line growth are key to credit quality. Both trade types argue for waiting until greater clarity on the post-election framework appears. If credit continues to back up or gap wider, there will almost certainly be investors willing to step in and add risk but at these levels, wait and see remains the base case for most.



Source: RBC Wealth Management, Bloomberg

Municipals

Municipals posted gains for the second consecutive trading session yesterday with tax-exempts due 10-years and longer firming by 1 basis points heading into the last two trading days of the month.

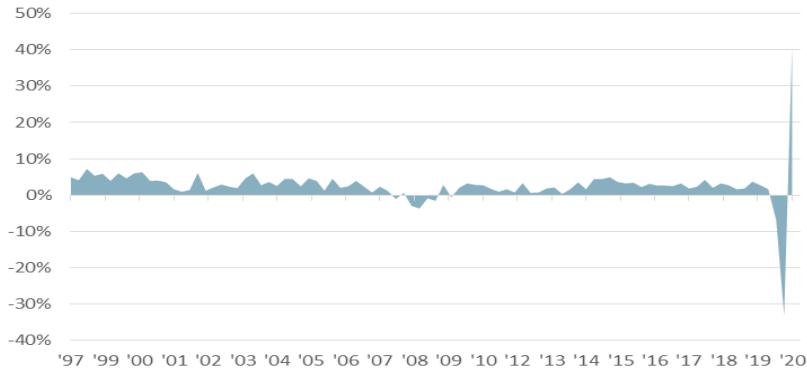
The head of New York's MTA Pat Foye sent out a dire warning yesterday, saying the New York City region is at risk of losing \$65 billion in GDP annually absent a bailout package by the federal government. Foye said the MTA would be forced to drastically cut services and lay off staff.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Initial Jobless Claims	Oct 24	770k	751k	787k	<p>Jobless claims were lower than expected as the measure falls for the third consecutive week. 751k is the smallest number of claims since mid-March.</p> <p>Third quarter annualized GDP comes in slightly higher than expected at 33.1% as the economy and businesses reopened. Part of the growth was fueled by personal consumption which soared 40.7%, a record high since the index formed in the late 1990's. That comes just one month after the index plunged to a record low of -33.2%, indicating that consumers were ready and willing to spend post-lockdown.</p> <p>Pending home sales are poised for the fifth straight gain as the housing market bourgeons. Once listed, homes have been flying off the shelf, leaving little in the way of inventory</p>
GDP Annualized QoQ	3Q A	32.0%	33.1%	-31.4%	
Personal Consumption	3Q A	38.9%	40.7%	-33.2%	
Core PCE QoQ	3Q A	4.0%	3.5%	-0.8%	
Bloomberg Consumer Comfort	Oct 25	-	-	46.6	
Pending Home Sales	Sep	3.0%	-	8.8%	

Chart: Consumer Spending Soars by Record Amount



Source: RBC Wealth Management, Bloomberg

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
MBA Mortgage Apps.	Oct 23	-	1.7%	-0.6%	<p>The MBA Mortgage Application gauge posted its first increase in three weeks, rising 1.7%.</p> <p>The increase was undoubtedly assisted by mortgage rates, which continue to reach fresh lows. During the week ended Oct 23, the average 30-year fixed mortgage rate was 3.0%.</p> <p>Loan applications for new homes fell for the fourth consecutive week to the lowest level since late July, but nevertheless remain far above levels from the same time last year.</p>
Wholesale Inventories MoM	Sep P	0.4%	-0.1%	0.4%	

Chart: 30 Year Fixed Mortgage Rate's Downward Trend Over Last 20 Years

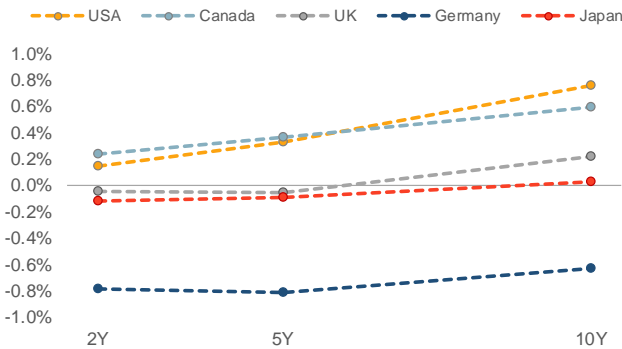


Source: RBC Wealth Management, Bloomberg

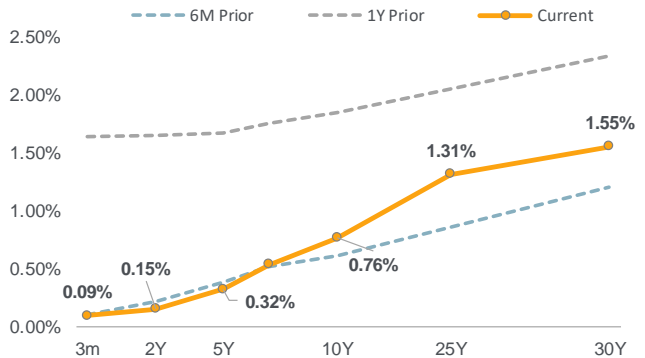
Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	0.09	0.12	0.15	0.32	0.53	0.76	-	-	-	1.55
	Agencies	0.14	0.15	0.18	0.45	0.70	1.06	1.47	1.70	1.89	1.98
	AAA Munis	0.16	0.17	0.19	0.33	0.57	0.94	1.34	1.53	1.71	1.79
IG Corp	AA	0.21	0.25	0.31	0.70	1.06	1.53	2.10	2.37	2.60	2.67
	A	0.21	0.29	0.39	0.85	1.24	1.69	2.37	2.66	2.80	2.78
	BBB	0.50	0.60	0.71	1.23	1.68	2.16	2.89	3.25	3.31	3.18
HY Corp	BB	1.72	2.09	2.52	3.54	4.09	4.65	5.48	6.07	6.14	6.14
	B	2.24	2.75	3.40	4.65	5.07	5.52	6.27	6.72	6.62	6.59

Global Sovereign Yields



U.S. Treasury Yield Curve



Fed Funds Forecasts	2020	2021	2022	2023	10Y Tsy Yield Forecasts	4Q20	1Q21	2Q21	3Q21
Fed's 'Dot Plot' (Sep)	0.25%	0.25%	0.25%	0.25%	Consensus (October)	0.75%	0.83%	0.90%	0.98%
Market Pricing	0.25%	0.25%	0.25%	0.25%	RBC Capital Markets	0.75%	0.80%	0.85%	0.95%
Our View	0.25%	0.25%	0.25%	0.25%	Market Forwards	0.82%	0.87%	0.91%	0.95%

Corporates

Sector	1w Chng	Year-to-Date Performance	Corporate Bond Yields by Credit Quality
Treasuries	0.29%	8.3	12.0%
Investment Grade			
Index	0.46%	7.2	
AA	0.37%	7.1	
A	0.45%	8.1	
BBB	0.49%	6.5	
Speculative Grade			
Index	-0.29%	1.8	
BB	-0.27%	5.4	
B	-0.34%	0.1	
Preferred Shares			
Fixed-Rate	0.16%	3.6	
Hybrids	0.71%	-1.0	
Equities			
S&P 500	-1.29%	6.5	

Credit Spreads over Treasuries (bps)	Current	5Y Low	5Y Avg	5Y High
Investment Grade	123	85	129	373
Speculative Grade	488	303	449	1100

Municipals

Weekly Muni Fund Flows	AAA Munis vs. Treasuries	Muni Yields & Muni/Treasury Ratios Over the Past Year
Bar chart showing weekly flows from Nov to Oct, with a significant drop in Jan.	Line chart showing AAA Muni vs. Treasury yields from 1Y to 30Y. Muni yields are consistently higher than Treasury yields.	Bar chart showing Muni Yields (GO Muni Index Yields) and Muni/Treasury Yield Ratios for 5Y, 10Y, 15Y, and 22Y+ maturities.

Select State Benchmark Yields					
CA	1.25%	PA	1.54%	AZ	1.25%
NY	1.61%	OH	1.23%	CT	1.13%
TX	1.18%	VA	1.16%	NC	1.19%
FL	1.49%	MD	1.02%	MI	1.42%
WA	1.07%	NJ	2.02%	WI	1.15%
IL	2.25%	CO	1.51%	OR	1.16%
MA	1.20%	GA	1.22%	MN	1.19%

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

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