



Daily Market View

Wednesday, December 02, 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	0.93%	0.93%
S&P 500	3,648	3,662
IG Corporates	1.84%	1.80%
HY Corporates	4.60%	4.70%
Municipals	1.17%	1.17%

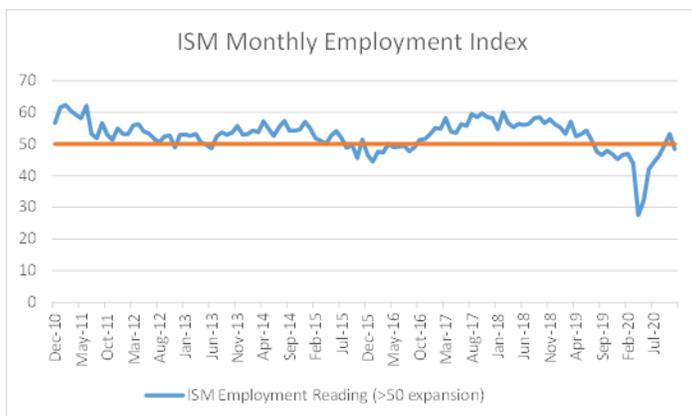
Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

Rates

Yields popped along the curve on press reports that fiscal stimulus proposals are once again circulating in Congress. The potential for a “fiscal bridge” until vaccines are widely available pushed investors out of Treasuries, particularly on the long end. The curve ended both higher and steeper.

ISM manufacturing data released yesterday was slightly weaker than expected but still showed one of the highest rates of monthly expansion in years. The ISM employment reading was less reassuring, showing a modest monthly contraction. The most important monthly jobs reading—Non-Farm Payrolls—is due out on Friday.

While early fiscal stimulus would be economically helpful, market reaction may be getting ahead of probabilities. Although a bipartisan Senate group has proposed a roughly \$900 billion plan, neither House nor Senate leadership have signed off.



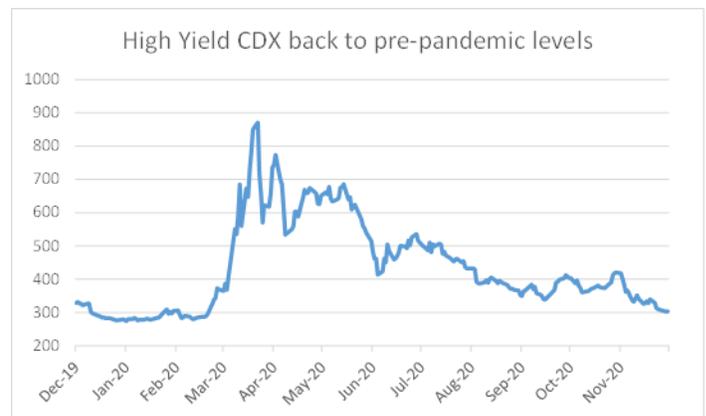
Source: RBC Wealth Management, Bloomberg

Credit

Corporates sold off alongside Treasuries and were largely unchanged on a spread basis.

There’s not much to really move the needle on corporate credit risk in the recent news flow. At the margin, some individual corporates could be saved by a faster fiscal stimulus plan, but issuers—particularly those large enough to be weighted in the indices—have already built their funding bridge using incredibly cheap debt. Better growth and revenue are certainly welcome but current pricing is already fairly optimistic.

Investors continue to push further down the credit curve in the search for yield.



Source: RBC Wealth Management, Bloomberg

Municipals

Municipals were mostly unchanged in afternoon trading with maturities due 5 years and in 1 basis point higher. The Bloomberg Barclays Municipal Index returned 1.51% in November on strong demand and reduced issuance.

Absent a round of federal aid many U.S. states are not expected to see a recovery in tax revenue until late 2021 forcing them to make tough decisions with respect to balancing budget and managing deficits, according to Moody’s.

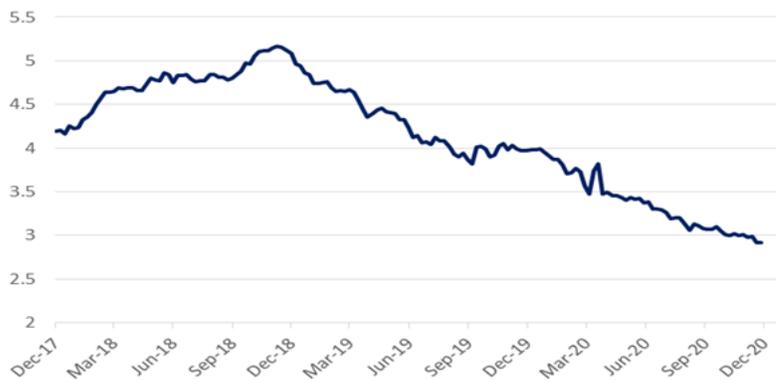
West Covina, California sold \$204 million of pension bonds in July is on the brink of bankruptcy because of poor management and the raiding of reserves, according to recent report by the a state auditor.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior
MBA Mortgage Applications	Nov 27	-	-0.6%	3.9%
ADP Employment Change	Nov	430k	307k	404k

Chart: 30 Year Fixed Mortgage Rates Hit 2.92%



Source: RBC Wealth Management, Bloomberg

ADP employment results added fewer jobs than projected following the already disappointing results from the October report as surging virus cases and rising restrictions decelerates hiring. ADP added 307k jobs during November versus 404k from the prior month.

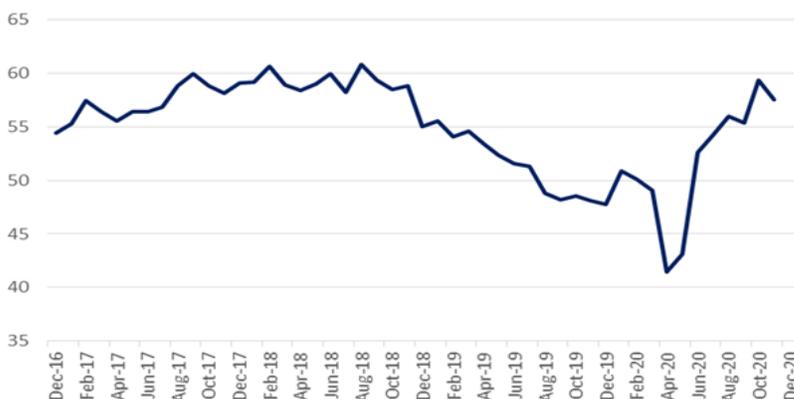
Released eight times a year, the Fed's Beige Book, which gathers anecdotal information on economic conditions should continue discussing deterioration of economic activity as virus cases climb amid rising restrictions. Near-term data is expected to be less optimistic with increasing layoffs and business foreclosures becoming more likely.

MBA mortgage applications fell 0.6% after rising 3.9% during the prior week. Refis declined 4.6% despite 30 year fixed mortgage rates falling to 2.92% shown from the left chart.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior
Markit US Manufacturing PMI	Nov F	56.7	56.7	-56.7
ISM Manufacturing	Nov	58.0	57.5	59.3
ISM Prices Paid	Nov	65.0	65.4	65.5
Construction Spending MoM	Oct	0.8%	1.3%	0.3%
Wards Total Vehicle Sales	Nov	16.10m	15.55m	16.21m

Chart: ISM Manufacturing Data



Source: RBC Wealth Management, Bloomberg

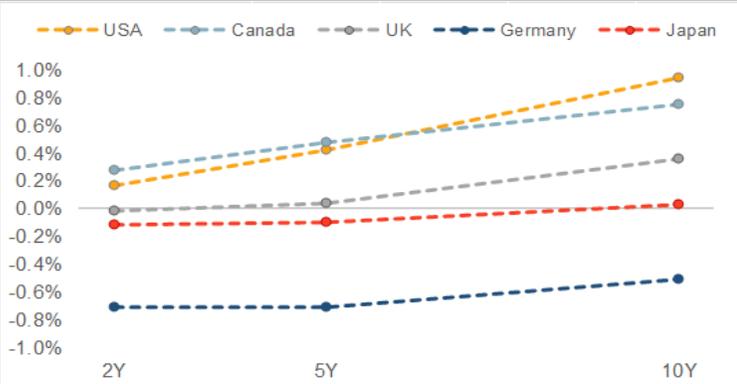
ISM Manufacturing data remained relatively flat after the previous reading reported the strongest numbers since late 2018. Factory output remained strong while ISM services weakened amid travel and restaurant restrictions.

Wards vehicle sales reported slightly lower from November following the strong results during the prior month. Overall, demand has sustained with more people moving from urban living to suburban homes where 1-2 cars is standard compared to urban residents only having 0-1 cars.

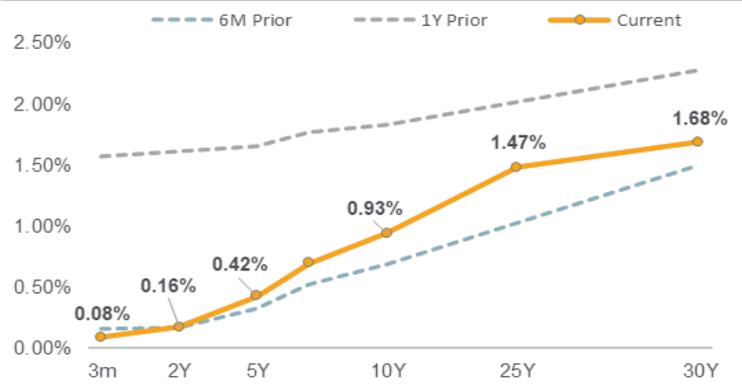
Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	0.08	0.10	0.16	0.42	0.69	0.93	-	-	-	1.68
	Agencies	0.12	0.14	0.19	0.51	0.78	1.17	1.57	1.81	1.99	2.08
	AAA Munis	0.13	0.14	0.15	0.23	0.39	0.71	1.06	1.25	1.42	1.49
IG Corp	AA	0.20	0.24	0.30	0.71	1.06	1.49	2.00	2.26	2.46	2.54
	A	0.22	0.28	0.38	0.84	1.21	1.65	2.28	2.52	2.63	2.61
	BBB	0.48	0.55	0.65	1.15	1.58	2.05	2.77	3.06	3.09	2.97
HY Corp	BB	1.14	1.55	2.02	3.11	3.67	4.22	5.04	5.50	5.45	5.41
	B	2.00	2.48	3.05	4.16	4.57	5.03	5.81	6.24	6.24	6.21

Global Sovereign Yields



U.S. Treasury Yield Curve

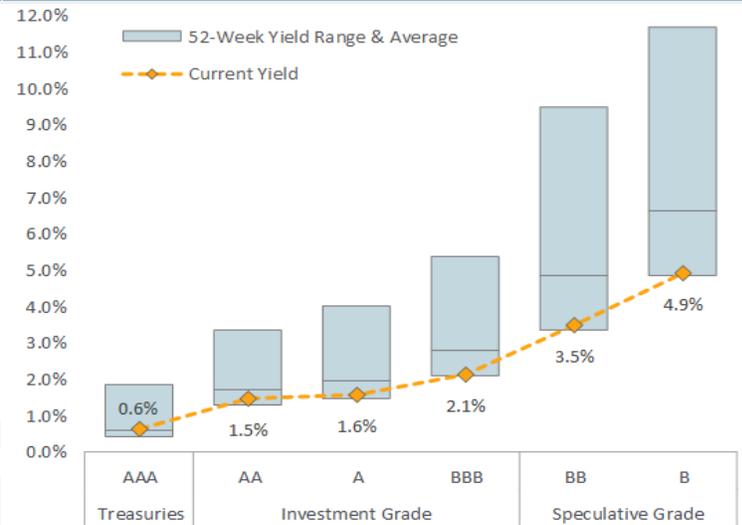


Fed Funds Forecasts	2020	2021	2022	2023	10Y Tsy Yield Forecasts	4Q20	1Q21	2Q21	3Q21
Fed's 'Dot Plot' (Sep)	0.25%	0.25%	0.25%	0.25%	Consensus (November)	0.85%	0.93%	1.01%	1.10%
Market Pricing	0.25%	0.25%	0.25%	0.50%	RBC Capital Markets	0.75%	0.80%	0.85%	0.95%
Our View	0.25%	0.25%	0.25%	0.25%	Market Forwards	0.98%	1.02%	1.07%	1.12%

Corporates

Sector	1w Chng	Year-to-Date Performance
Treasuries	-0.32%	7.6
Investment Grade Index	0.18%	9.0
AA	0.10%	8.3
A	0.08%	9.4
BBB	0.27%	8.8
Speculative Grade Index	0.32%	5.3
BB	0.27%	8.7
B	0.29%	3.0
Preferred Shares		
Fixed-Rate	0.20%	6.8
Hybrids	-0.08%	2.2
Equities		
S&P 500	0.94%	15.3

Corporate Bond Yields by Credit Quality



Credit Spreads over Treasuries (bps)

	Current	5Y Low	5Y Avg	5Y High
Investment Grade	101	85	128	373
Speculative Grade	397	303	447	1100

Municipals

Weekly Muni Fund Flows	AAA Munis vs. Treasuries	Muni Yields & Muni/Treasury Ratios Over the Past Year
Select State Benchmark Yields		
CA: 1.00%	PA: 1.27%	AZ: 1.04%
NY: 1.29%	OH: 1.06%	CT: 0.92%
TX: 0.98%	VA: 0.96%	NC: 0.98%
FL: 1.26%	MD: 0.81%	MI: 1.24%
WA: 0.87%	NJ: 1.67%	WI: 1.03%
IL: 2.05%	CO: 1.25%	OR: 0.96%
MA: 0.98%	GA: 1.02%	MN: 0.99%

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