



# Daily Market View

Friday, January 22, 2021

Portfolio Advisory Group – U.S. Fixed Income Strategies

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Market Snapshot	Today	Prior Session
3-month Libor	0.22%	0.22%
10-Year Treasury	1.08%	1.12%
S&P 500	3,853	3,851
IG Corporates	1.86%	1.83%
HY Corporates	4.10%	4.11%
Municipals	1.04%	1.05%

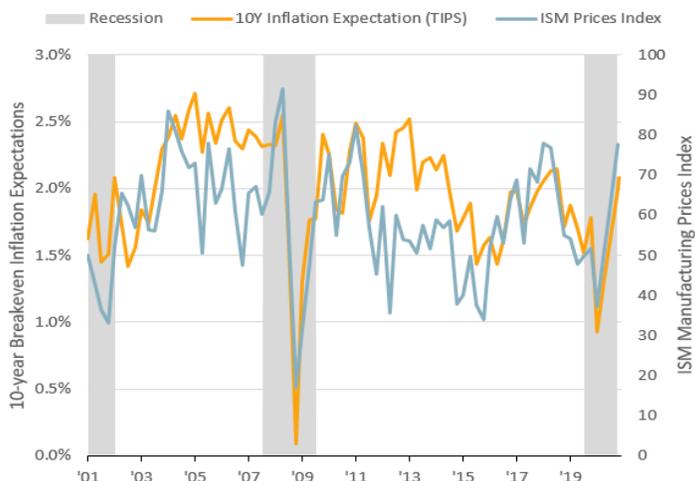
Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

## Rates

Markets are taking a step back this morning as global lockdown jitters and soft activity data out of Europe again hit risk assets while taking the 10-year Treasury yield back down below 1.10%. Market-based 10-year inflation expectations are also down sharply this morning after a sharp move higher in recent sessions, dipping to 2.08% from 2.18%.

Later this morning we'll get the preliminary PMI numbers for both the manufacturing and service sectors, both expected to weakening modestly from January's levels. Beyond activity levels, we would keep an eye on pricing pressures. As the chart shows, the ISM Price Index is nearing decade highs as raw material costs, and low inventory levels that will need to be built back up, risks a demand/supply imbalance that could be exacerbated later this year as the economy reopens and pent-up spending is unleashed—chasing too-few goods & services—that fuels inflationary impulses.

### Businesses Increasingly Citing Pricing Pressures



Source: RBC Wealth Management, Bloomberg

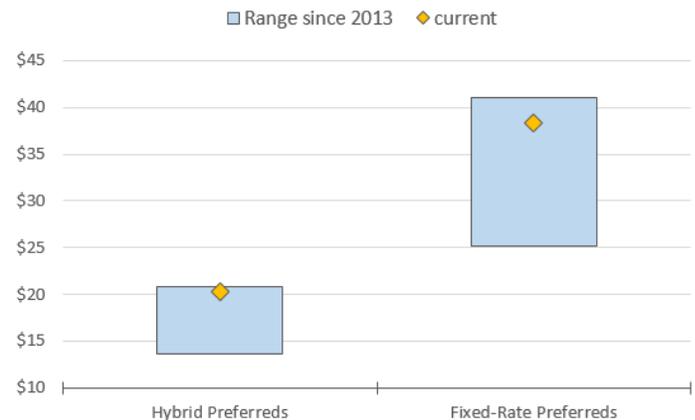
## Credit

Despite the 10-year Treasury yield rising from about 0.90% at the beginning of January to 1.15%, preferred share prices have barely budged from near-record levels.

The chart shows that two of the primary ETFs that track the hybrid-preferred and fixed rate preferred market remain near decade highs.

Demand for yield, strong stock market performance, and little threat of Fed rate hikes anywhere on the horizon continue to support the markets, and it's difficult to see catalysts ahead that could shake preferred share prices from their perch.

### Despite rising Treasury yields, preferred shares nearly all-time highs



Source: RBC Wealth Management, Bloomberg

## Municipals

Municipals firmed across the yield curve yesterday following two days of trading sideways. The benchmark 30-year municipal firmed by 2 bps closing at 1.45% in afternoon trading.

Investor added \$2.4 billion to municipal bond funds for the week, just short of last week's \$2.6 billion. Short-term and long-term funds gained the lion's share of inflows.

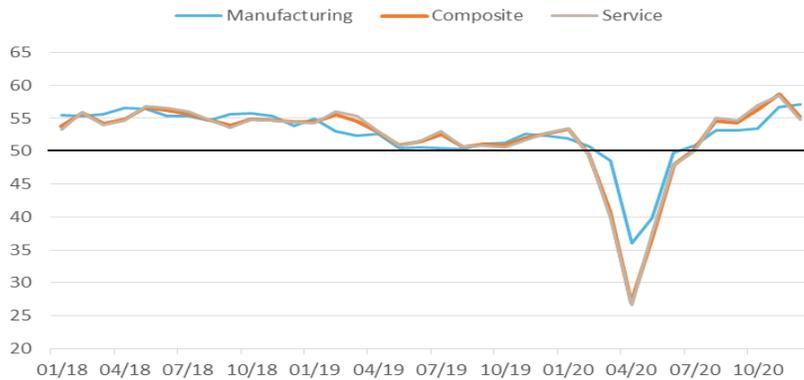
New York's MTA, after postponing fare hikes in hopes of federal and state aid, continues holding out hope for additional aid. The Governor warned if the state does not receive \$15 billion in aid there would be across the board cuts, an ominous sign for the MTA.

## Strategy & Economics

### Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Markit US Manf. PMI	Jan P	56.5	-	57.1	<p>PMI data has performed well following its plunge to record lows in April. All three measures now sit comfortably above 50, the measure for contraction vs. expansion, as manufacturing PMI hit a record high in December while composite and services PMI data reached an all-time high in November.</p> <p>Existing home sales are forecast for a decline from 6.69m to 6.56m, not due to weakening demand, but instead due to lean inventory. Demand has been so high that there are significantly less homes on the market than usual, which will affect existing home sales data. Affordability is also beginning to become an issue, with existing homes priced 15% higher over last year.</p>
Markit US Composite PMI	Jan P	-	-	55.3	
Markit US Services PMI	Jan P	53.4	-	54.8	
Existing Home Sales	Dec	6.56m	-	6.69m	

Chart: PMI Data Sticks in Expansion Territory

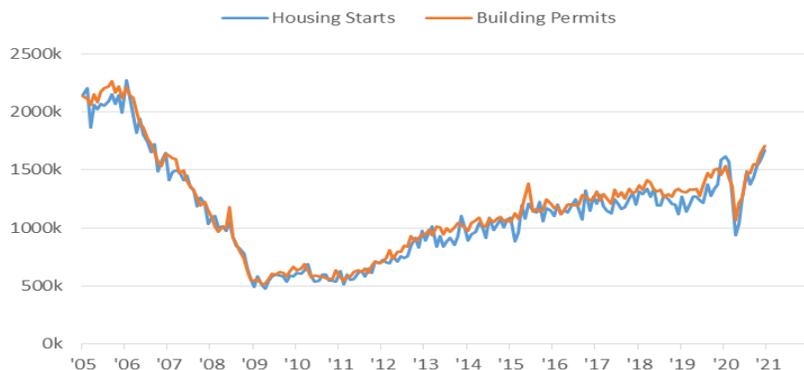


Source: RBC Wealth Management, Bloomberg

### Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Housing Starts	Dec	1560k	1669k	1578k	<p>Supported by ultralow mortgage rates and strong demand, housing starts soared to the highest level since September 2006. Building permits jumped to 1709k, the highest level since August 2006 as homebuilders attempt to keep up with the demand for more homes away from large cities.</p> <p>Jobless claims posted a marginal decline from the previous week, but remain elevated, signaling increased strain from the pandemic on the U.S. labor market.</p> <p>The Philadelphia Fed Business Outlook survey climbed to 26.5, the most since February 2020. The sub-indexes that make up the index rose across the board, with prices paid, new orders, employment, and shipments the largest increases.</p>
Building Permits	Dec	1605k	1709k	1635k	
Philadelphia Fed Business Outlook	Jan	11.5	26.5	9.1	
Initial Jobless Claims	Jan 16	935k	900k	926k	

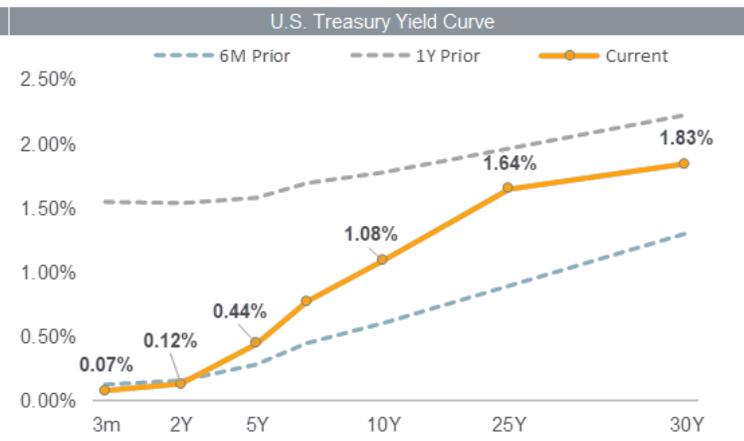
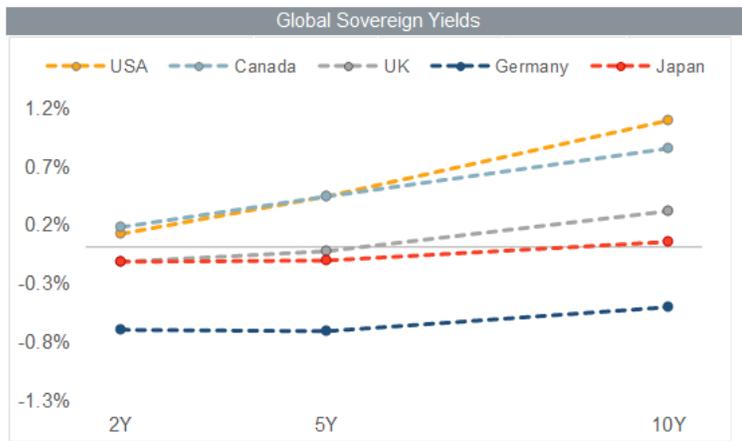
Chart: Housing Starts, Building Permits Climb to 15 Year High



Source: RBC Wealth Management, Bloomberg

### Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	0.07	0.09	0.12	0.44	0.76	1.08	-	-	-	1.83
	Agencies	0.10	0.11	0.14	0.49	0.82	1.24	1.65	1.94	2.08	2.19
	AAA Munis	0.13	0.14	0.16	0.25	0.43	0.76	1.11	1.30	1.47	1.54
IG Corp	AA	0.16	0.20	0.26	0.75	1.15	1.64	2.17	2.47	2.62	2.72
	A	0.19	0.25	0.33	0.86	1.30	1.81	2.46	2.72	2.81	2.81
	BBB	0.41	0.47	0.56	1.12	1.61	2.17	2.93	3.21	3.23	3.13
HY Corp	BB	0.76	1.19	1.72	2.96	3.56	4.10	4.90	5.21	5.03	4.96
	B	1.70	2.27	2.93	4.15	4.59	5.04	5.88	6.22	6.13	6.08

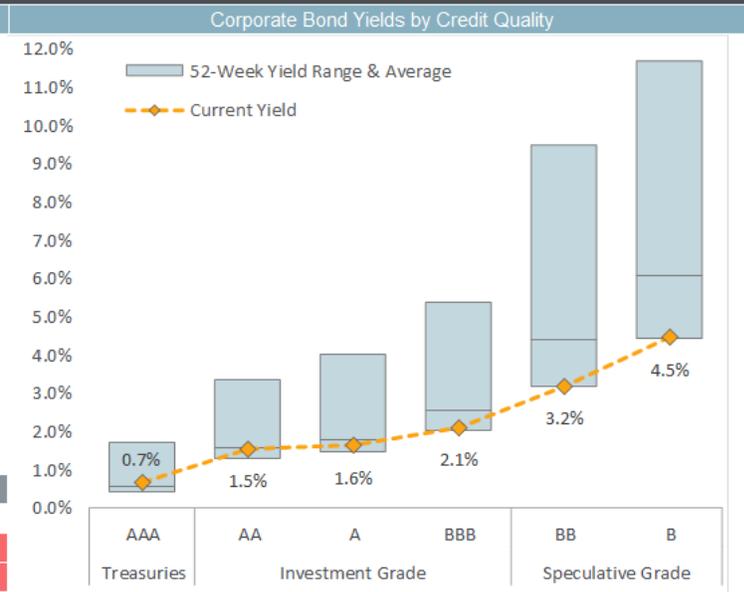


Fed Funds Forecasts	2020	2021	2022	2023
Fed's 'Dot Plot' (Sep)	0.25%	0.25%	0.25%	0.25%
Market Pricing	0.25%	0.25%	0.25%	0.50%
Our View	0.25%	0.25%	0.25%	0.25%

10Y Tsy Yield Forecasts	1Q21	2Q21	3Q21	4Q21
Consensus (January)	1.06%	1.19%	1.26%	1.34%
RBC Capital Markets	1.05%	1.15%	1.20%	1.25%
Market Forwards	1.16%	1.21%	1.27%	1.32%

### Corporates

Sector	1w Chng	Year-to-Date Performance
Treasuries	-0.02%	-1.1
Investment Grade		
Index	-0.08%	-1.2
AA	-0.15%	-1.5
A	-0.08%	-1.4
BBB	-0.06%	-1.0
Speculative Grade		
Index	0.29%	0.6
BB	0.25%	0.4
B	0.24%	0.5
Preferred Shares		
Fixed-Rate	0.63%	0.0
Hybrids	0.27%	-0.1
Equities		
S&P 500	2.26%	2.7

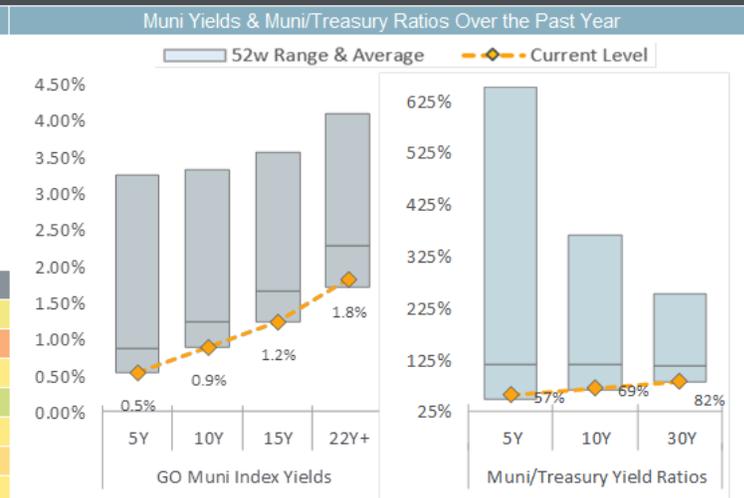


Credit Spreads over Treasuries (bps)	Current	5Y Low	5Y Avg	5Y High
Investment Grade	94	85	127	373
Speculative Grade	343	303	438	1100

### Municipals



Select State Benchmark Yields					
CA	0.93%	PA	1.16%	AZ	0.99%
NY	1.12%	OH	0.98%	CT	0.88%
TX	0.92%	VA	0.88%	NC	0.95%
FL	1.14%	MD	0.80%	MI	1.13%
WA	0.79%	NJ	1.36%	WI	0.95%
IL	1.51%	CO	1.13%	OR	0.93%
MA	0.92%	GA	0.94%	MN	0.95%



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