



Daily Market View

Friday, May 07, 2021

Portfolio Advisory Group – U.S. Fixed Income Strategies

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Market Snapshot	Today	Prior Session
3-month Libor	0.17%	0.18%
10-Year Treasury	1.51%	1.57%
S&P 500	4,207	4,202
IG Corporates	2.14%	2.15%
HY Corporates	3.97%	3.95%
Municipals	1.04%	1.03%

Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

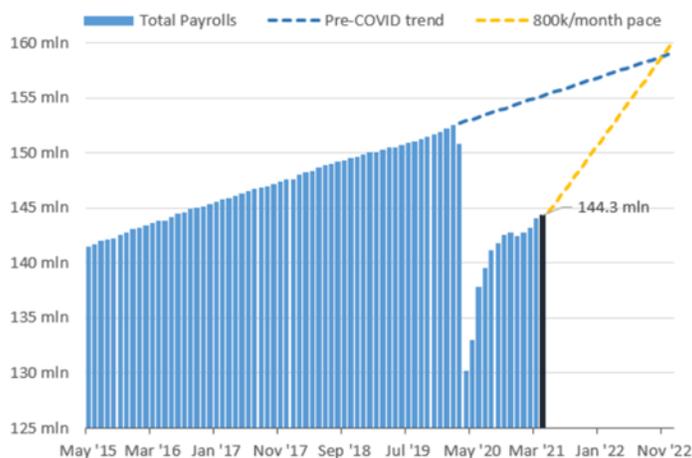
Rates

Will this morning's jobs report finally give a boost to languishing Treasury yields?

The answer seems to be no, just 266k jobs were added in April on expectations of 1,000,000. While the unemployment rate actually rose to 6.1% on expectations that it would drop to 5.8%.

On the surface, this will clearly be a report where markets will want to dive into the details given that it was so far from expectations, and at odds with other data points of late, but the early market reaction has the 10-year Treasury yield dropping sharply, now below 1.50% for the first time since early March.

A soft jobs report puts a full recovery farther out of reach



Source: RBC WM and Bloomberg

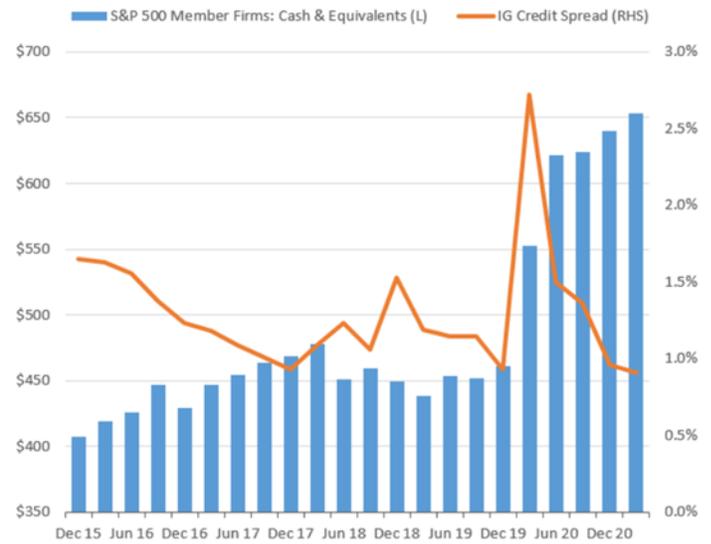
Credit

Corporate bond issuance continues unabated even as the cash already on company balance sheets reaches fresh record highs.

Of course, rates are low so perhaps companies simply see it as an opportune time to load up on cash on hopes that they'll find productive uses for it down the road. But until then, that liquidity may provide a pretty strong cushion for credit spreads in the quarters, and maybe even years ahead, meaning that credit markets may be well insulated from broad market volatility.

IG spreads of just +0.88% over Treasuries are likely near the theoretical limit, in our view, and while HY spreads of 2.9% is historically low, we think they can grind tighter still.

Corporate Cash Balances Swell as Credit Spreads Collapse



Source: RBC WM, Bloomberg

Municipals

Tax-exempt trading was slow and steady with most of this week's primary market priced already. As a result, tax-exempts ended the trading session unchanged.

Investors added \$585 million to municipal mutual funds, marking the ninth consecutive week of inflows. Investors pulled cash from short-term and intermediate funds while adding cash to high-yield and long-term funds.

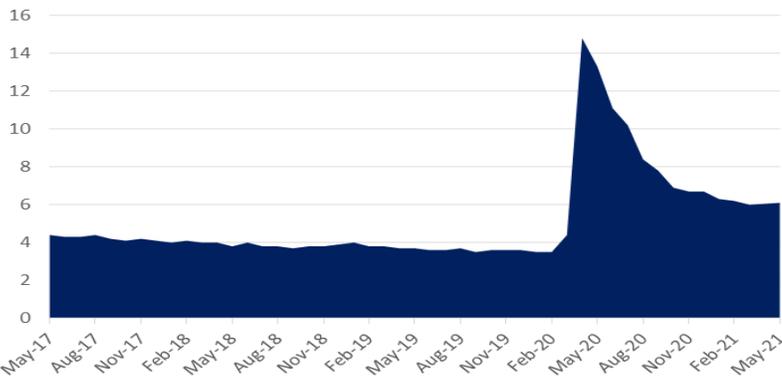
Heads of the union representing New York's MTA employees union is asking Mayor Bill de Blasio to add 500 more policemen to patrol the subways amid a spike in crime and attacks on MTA employees.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Change in Nonfarm Payrolls	Apr	1000k	266k	770k	<p>Non-farm payrolls reported well below projections after the substantial snap-back in March that was augmented by difficult weather conditions the month prior. Nonfarm payrolls added 266k job, down from 770k the prior month.</p>
Change in Private Payrolls	Apr	938k	218k	708k	
Unemployment Rate	Apr	5.8%	6.1%	6.0%	
Average Hourly Earnings YoY	Apr	-0.4%	0.3%	4.2%	
Wholesale Inventories MoM	Mar F	1.4%	-	1.4%	

Chart: US Unemployment Rate Edges Higher to 6.1%



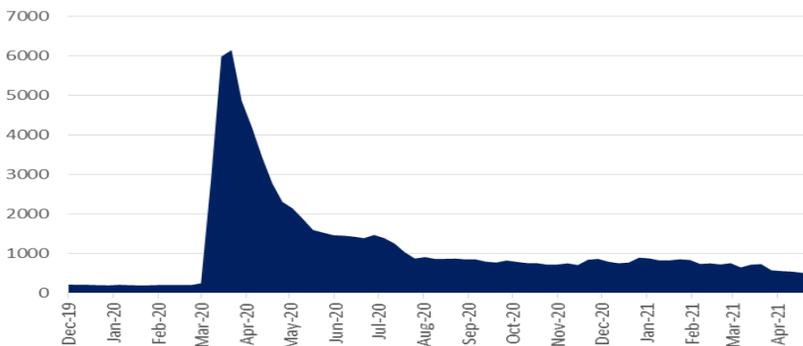
Source: RBC Wealth Management, Bloomberg

The unemployment rate increased slightly to 6.1% in April, up from 6.0% the month prior. Unemployment remains a key metric that guides the Fed's assessment of appropriate policy, which may still take a considerable period of time.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Initial Jobless Claims	May 1	538k	498k	553k	<p>Initial jobless claims moved lower for the week ending May 1st to 498k, down from 553k during the previous week as more companies look to hire with demand ramping up. Claims are indeed showing improvement shown by the left chart, but at very slow pace due to generous unemployment benefits and lingering virus concerns keeping workers to the sidelines. However, as economy prepares to open more broadly in the coming months, jobless claims will be a key indicator for determining improvement in the labor market.</p>
Continuing Claims	Apr 24	3620k	3690k	3660k	
Langer Consumer Comfort	May 2	-	54.4	55.0	
Nonfarm Productivity	1Q P	4.3%	5.4%	-4.2%	
Unit Labor Costs	1Q P	-1.0%	-0.3%	6.0%	

Chart: Initial Jobless Claims Slowly Trend Lower

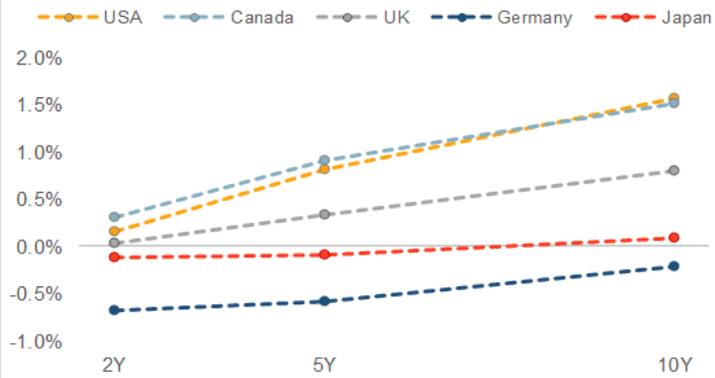


Source: RBC Wealth Management, Bloomberg

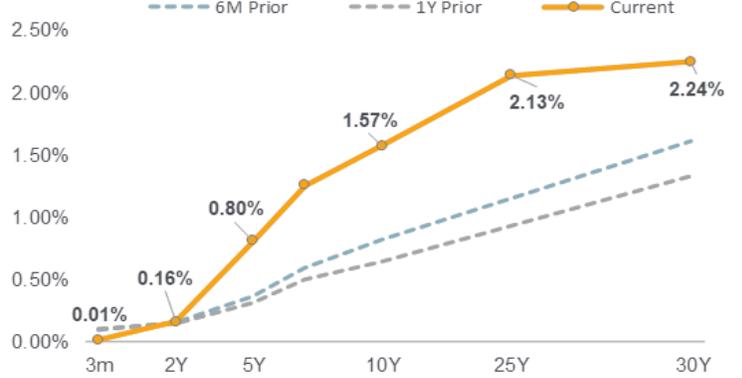
Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	0.01	0.05	0.16	0.80	1.25	1.57	-	-	-	2.24
	Agencies	0.04	0.09	0.16	0.83	1.25	1.66	1.95	2.18	2.38	2.43
	AAA Munis	0.06	0.08	0.10	0.43	0.64	0.97	1.25	1.41	1.57	1.63
IG Corp	AA	0.15	0.20	0.25	1.05	1.57	2.09	2.57	2.82	2.98	3.02
	A	0.18	0.24	0.33	1.20	1.76	2.31	2.85	3.06	3.14	3.16
	BBB	0.35	0.46	0.60	1.49	2.08	2.67	3.28	3.50	3.52	3.48
HY Corp	BB	1.13	1.39	1.81	3.13	3.79	4.37	5.09	5.25	5.08	5.05
	B	1.07	1.58	2.33	4.05	4.69	5.29	6.25	6.40	6.22	6.16

Global Sovereign Yields



U.S. Treasury Yield Curve

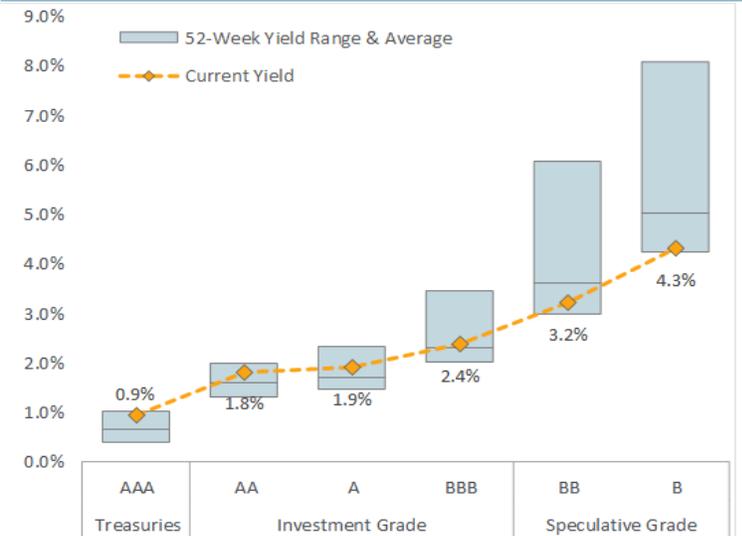


Fed Funds Forecasts	2020	2021	2022	2023	10Y Tsy Yield Forecasts	2Q21	3Q21	4Q21	1Q22
Fed's 'Dot Plot' (Sep)	0.25%	0.25%	0.25%	0.25%	Consensus (April)	1.71%	1.78%	1.83%	1.92%
Market Pricing	0.25%	0.25%	0.25%	0.50%	RBC Economics	1.80%	1.90%	2.00%	2.05%
Our View	0.25%	0.25%	0.25%	0.25%	Market Forwards	1.66%	1.73%	1.80%	1.87%

Corporates

Sector	1w Chng	Year-to-Date Performance
Treasuries	0.33%	-3.2
Investment Grade		
Index	0.51%	-3.1
AA	0.56%	-3.7
A	0.46%	-3.5
BBB	0.54%	-2.6
Speculative Grade		
Index	0.20%	2.2
BB	0.19%	1.1
B	0.10%	2.3
Preferred Shares		
Fixed-Rate	-0.11%	1.6
Hybrids	0.00%	2.2
Equities		
S&P 500	0.52%	12.4

Corporate Bond Yields by Credit Quality



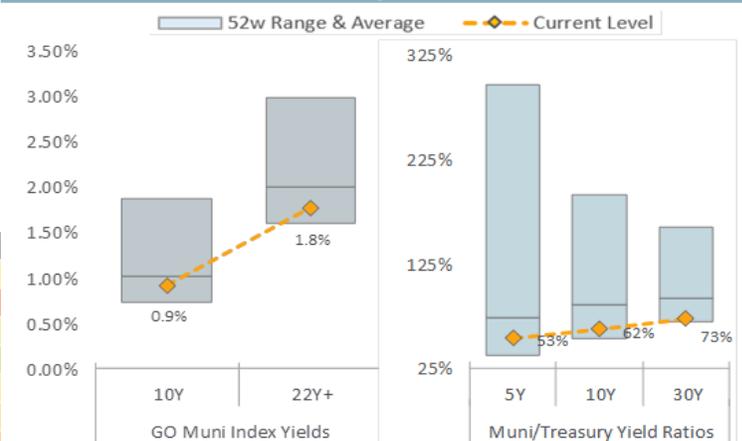
Credit Spreads over Treasuries (bps)

	Current	5Y Low	5Y Avg	5Y High
Investment Grade	88	85	122	373
Speculative Grade	291	286	417	1100

Municipals



Muni Yields & Muni/Treasury Ratios Over the Past Year



Select State Benchmark Yields

CA	0.97%	PA	1.13%	AZ	0.97%
NY	1.08%	OH	1.02%	CT	0.88%
TX	0.97%	VA	0.92%	NC	1.00%
FL	1.11%	MD	0.86%	MI	1.09%
WA	0.84%	NJ	1.26%	WI	0.96%
IL	1.33%	CO	1.14%	OR	0.95%
MA	0.96%	GA	0.96%	MN	0.92%

Portfolio Advisory Group – U.S. Fixed Income Strategies

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