



Daily Market View

Friday, July 30, 2021

Portfolio Advisory Group – U.S. Fixed Income Strategies

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Market Snapshot	Today	Prior Session
3-month Libor	0.13%	0.13%
10-Year Treasury	1.24%	1.27%
S&P 500	4,382	4,419
IG Corporates	1.95%	1.93%
HY Corporates	3.95%	3.89%
Municipals	0.87%	0.86%

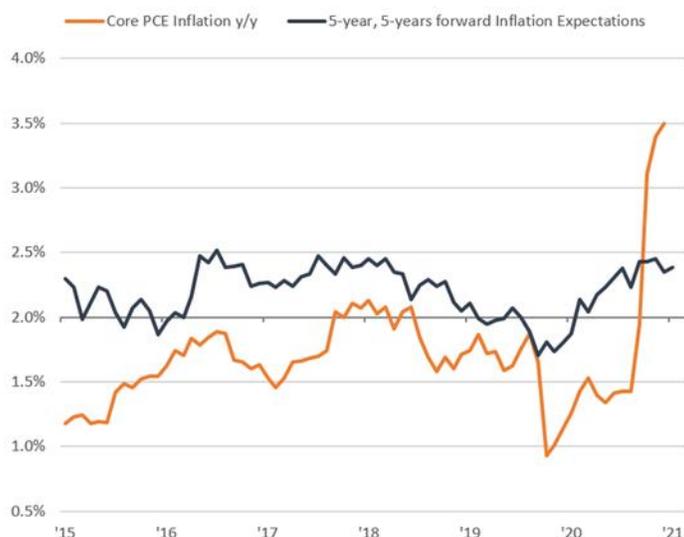
Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

Rates

Treasury yields are once again on the move slightly lower this morning on another round of global risk-off sentiment, despite strong economic data out of Europe; US futures indicate that stocks are set to open down around 0.50-1.0%.

Inflation data released this morning was slightly softer than expected, the headline PCE number was in line with expectations at +4.0% y/y, while core PCE excluding food & energy was just +3.5% y/y compared to consensus of 3.7%. We'll see if yield curves can re-steepen on that data as it should take some of the pressure off of the Fed, and some of the steam out of yields at the front-end of the Treasury curve.

Near-term inflation pressures build, as the market's long-term inflation expectations remain steady



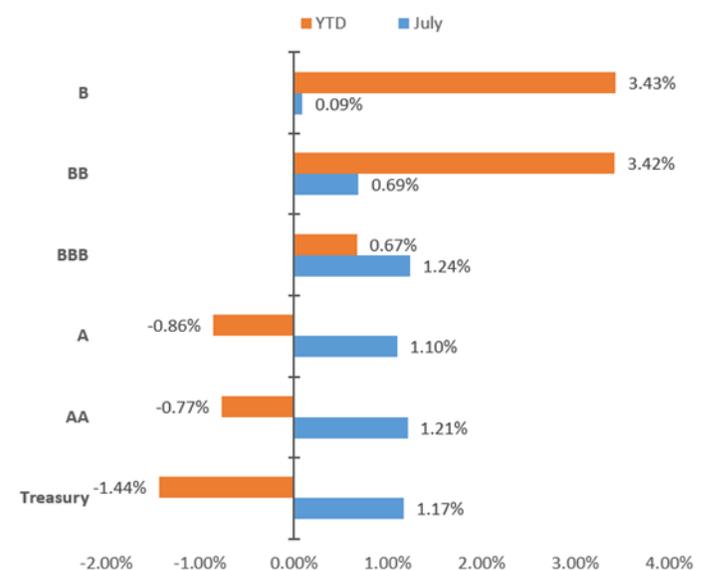
Source: RBC WM and Bloomberg

Credit

It should come as little surprise that July saw some reversals of recent trends as Treasury yields continued to fall, while credit spreads rose, driving outperformance by the interest-rate sensitive and higher-quality sectors, while speculative grade bonds lagged.

We don't think this trend will be sustained as Treasury yields are likely to eventually find a bottom, before moving modestly higher over the back-half of the year. We expect that credit markets will remain well-supported, but with rising risks around the delta variant, volatility is likely to remain elevated.

July credit performance saw a reversal of YTD trends and interest rate risk outperformed credit risk



Source: RBC WM and Bloomberg

Municipals

Long maturity tax-exempts sold off for the second consecutive trading session, while tax-exempts maturing 10-years and in ended the session unchanged.

Investors added \$1.4 billion to municipal bond funds, marking the 21st consecutive week of inflows. Investors piled \$770 million in short-end funds.

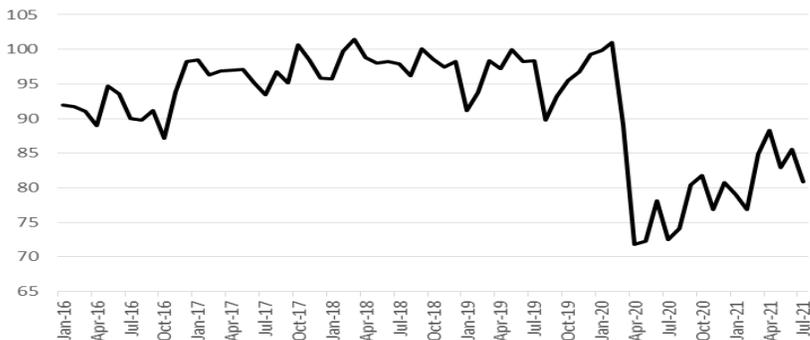
Hopes of reintroducing some form of Build America Bonds faded this week when details of a \$550 million infrastructure plan were released with no mention of some sort of direct-pay bond program similar to the Build America Bond program that was implemented by the Obama administration.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Personal Income	Jun	-0.3%	0.1%	-2.2%	<p>Personal income levels showed improvement during June reporting at 0.1% growth despite Government stimulus checks and unemployment benefits continuing to wane. Personal spending data grew 1.0% driven by services and consumer activity accelerating at a faster pace across the U.S. economy.</p>
Personal Spending	Jun	0.7%	1.0%	-0.1%	
PCE Deflator MoM	Jun	0.6%	0.5%	0.5%	
PCE Deflator YoY	Jun	4.0%	4.0%	4.0%	
PCE Core Deflator MoM	Jun	0.6%	0.4%	0.5%	
PCE Core Deflator YoY	Jun	3.7%	3.5%	3.4%	
MNI Chicago PMI	Jul	64.1	-	66.1	
U. of Mich. Sentiment	Jul F	80.8	-	80.8	

Chart: University of Michigan Sentiment



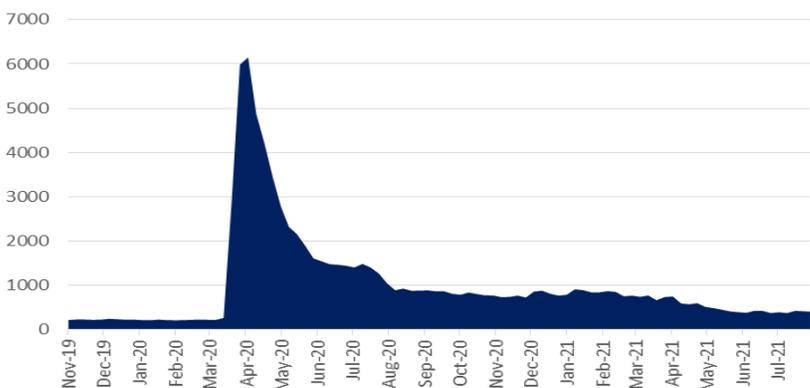
Source: RBC Wealth Management, Bloomberg

University of Michigan sentiment is projected to stay unchanged at 80.8 as fear of rising inflation becomes more a concern despite transitory remarks from the Fed. While sentiment has greatly improved, levels are still well below the pre-pandemic shown by the left chart.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
GDP Annualized QoQ	2Q A	8.5%	6.5%	6.4%	<p>Economic activity during the second quarter grew 6.5%, reflecting stronger consumer and business confidence as the economy continues to accelerate from the pandemic. In addition, personal consumption reported positive data growing 11.8% led by robust demand for goods.</p> <p>Initial jobless claims declined to 400k despite seasonal factors and auto plants recently reporting a large increase in jobless claims, specifically in Michigan and Kentucky. Job growth will likely improve pace once the remaining states end augmented unemployment benefits in September.</p>
GDP Price Index	2Q A	5.4%	6.0%	4.3%	
Personal Consumption	2Q A	10.5%	11.8%	11.4%	
Initial Jobless Claims	Jul 24	385k	400k	424k	
Continuing Claims	Jul 17	3183k	3269k	3262k	
Core PCE QoQ	2Q A	6.1%	6.1%	2.7%	

Chart: Initial Jobless Claims Edge Lower

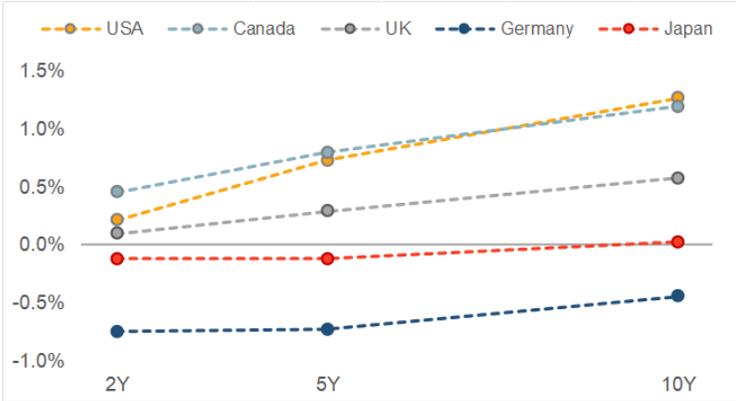


Source: RBC Wealth Management, Bloomberg

Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	0.04	0.06	0.21	0.73	1.01	1.26	-	-	-	1.92
	Agencies	0.06	0.10	0.19	0.73	1.03	1.35	1.68	1.90	2.08	2.10
	AAA Munis	0.06	0.06	0.06	0.38	0.56	0.84	1.08	1.20	1.34	1.40
IG Corp	AA	0.16	0.22	0.31	1.04	1.47	1.90	2.37	2.62	2.77	2.79
	A	0.17	0.25	0.37	1.14	1.59	2.06	2.60	2.79	2.89	2.87
	BBB	0.35	0.46	0.60	1.42	1.91	2.43	3.01	3.22	3.26	3.22
HY Corp	BB	1.15	1.37	1.71	2.94	3.55	4.06	4.63	4.73	4.60	4.60
	B	1.26	1.73	2.40	4.02	4.63	5.18	5.99	6.07	5.92	5.90

Global Sovereign Yields



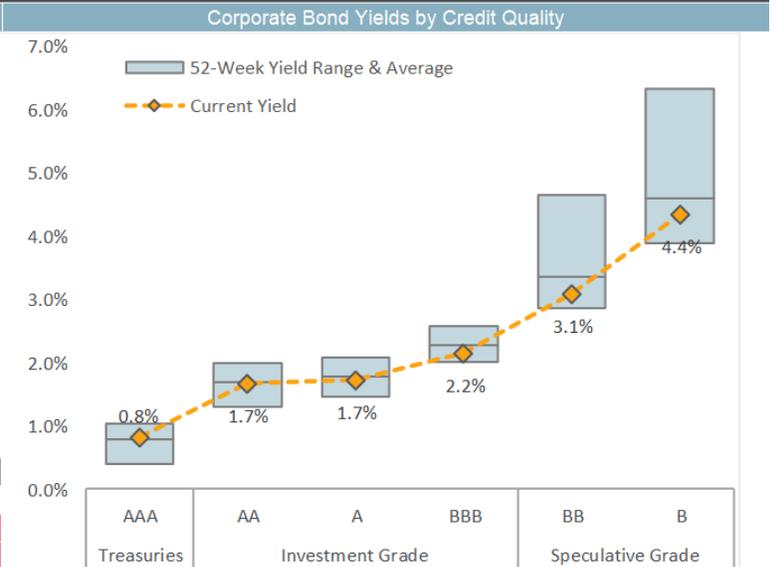
U.S. Treasury Yield Curve



Fed Funds Forecasts	2020	2021	2022	2023	10Y Tsy Yield Forecasts	3Q21	4Q21	1Q22	2Q22
Fed's 'Dot Plot' (June)	0.25%	0.25%	0.25%	0.75%	Consensus (July)	1.68%	1.79%	1.88%	1.96%
Market Pricing	0.25%	0.25%	0.25%	0.75%	RBC Economics	1.55%	1.75%	1.85%	2.00%
Our View	0.25%	0.25%	0.25%	0.50%	Market Forwards	1.35%	1.41%	1.47%	1.53%

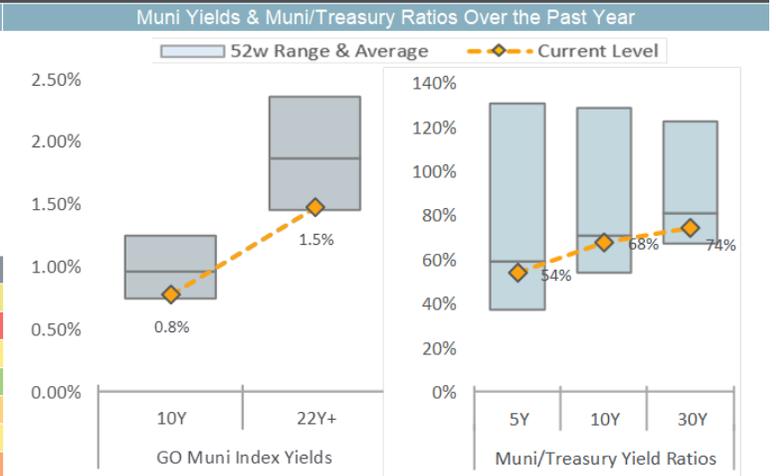
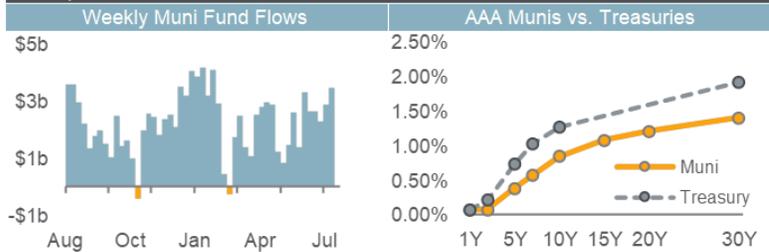
Corporates

Sector	1w Chng	Year-to-Date Performance
Treasuries	0.33%	-1.3
Investment Grade		
Index	0.46%	0.0
AA	0.47%	-0.6
A	0.45%	-0.7
BBB	0.47%	0.7
Speculative Grade		
Index	0.12%	3.9
BB	0.17%	3.3
B	0.07%	3.4
Preferred Shares		
Fixed-Rate	-0.03%	3.9
Hybrids	0.00%	4.7
Equities		
S&P 500	1.00%	18.1



Credit Spreads over Treasuries (bps)	Current	5Y Low	5Y Avg	5Y High
Investment Grade	86	80	119	373
Speculative Grade	296	262	404	1100

Municipals



Select State Benchmark Yields					
CA	0.79%	PA	0.92%	AZ	0.86%
NY	0.88%	OH	0.86%	CT	0.68%
TX	0.82%	VA	0.75%	NC	0.83%
FL	0.93%	MD	0.70%	MI	0.94%
WA	0.70%	NJ	1.02%	WI	0.80%
IL	0.99%	CO	0.96%	OR	0.84%
MA	0.80%	GA	0.83%	MN	0.75%

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

Portfolio Advisory Group – U.S. Fixed Income Strategies

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