Daily Market View

Thursday, September 23, 2021

Portfolio Advisory Group – U.S. Fixed Income Strategies

Market Snapshot	Today	Prior Session
3-month Libor	0.13%	0.13%
10-Year Treasury	1.34%	1.30%
S&P 500	4,412	4,396
IG Corporates	1.98%	1.99%
HY Corporates	3.83%	3.89%
Municipals	0.96%	0.96%

Source: RBC Wealth Management, Bloomberg, Bloomberg Barclays Indexes

Rates

Yields are modestly higher this morning, with the curve shifting approximately 6 bps higher. The more notable move has been the flattening in the 5s vs 30s portion of the curve, which just broke through 1%. It's not historically flat by any means, but shows the lack of inflation concerns.

The Fed was slightly more aggressive than expected yesterday: the likely announcement date was in-line with our expectations but the speed of the eventual tapering looks slightly accelerated, potentially ending in mid-2022 vs year end 2022. This could bring up the date for a first rate hike. Fed member projections were also on the hawkish side, although voting membership at the Fed is skewed to change dovish.

The bigger message from the curve flattening appears to be on-going concerns on growth. The complicated legislative path forward on debt ceiling legislation and averting a government shut down is a temporary impediment, but the potential inability to pass fiscal legislation could be a longer term and more serious headwind to growth.

Source: RBC WM and Bloomberg

Credit

High yield outperformed yesterday as the positive tone to equities outweighed higher short term rates. Investment grade was flat.

Conflicting headlines came out overnight on Evergrande, with Bloomberg reporting that the Chinese government has instructed the company to make the required payment on its dollar bonds (coupon is due today although there is a 30-day grace period before default) while officials reportedly also told local and regional governments to prepare for an eventual default. Chinese financial officials also injected additional liquidity into the market—the third such move in under a week.

Overall, it will likely be a noisy couple of weeks, but once we get past debt ceiling, government shutdown, and fiscal policy inertia risk, we think we should be poised for a move higher in Treasury yields. Credit spreads should help absorb some of that move.

Source: RBC WM and Bloomberg

Municipals

Municipals stood unchanged for the third day in a row as trading volatility remains light. The 10 year benchmark stands at 0.93%, while the 30 year benchmark ended yesterday at 1.52%. Despite compressed levels across the curve, strong muni demand keeps pace driven by concerns of potential tax hikes. The muni index has since returned 1.56% YTD.

According to the American Health Care Association, the vast majority of assisted living communities and nursing homes in the U.S. are in the midst of a staffing crisis. 99% of nursing homes and 96% of assisted living communities are currently experiencing labor shortages. As a result, nearly all facilities are forced to increase expenses by expanding overtime compensation, which will likely add negative pressure to the senior living space.

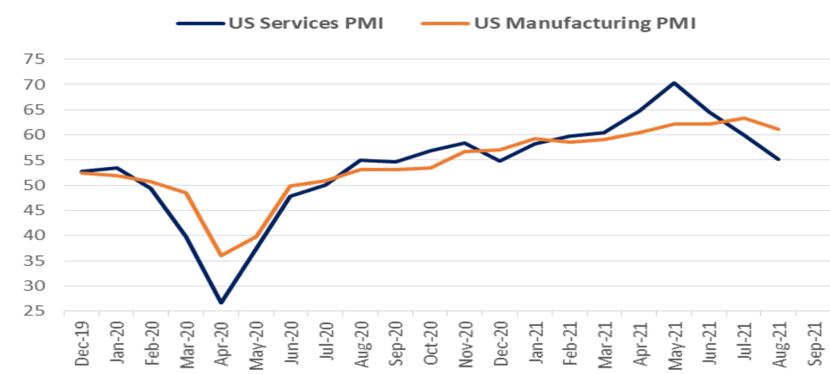
Strategy & Economics

Michael Roedl, *Fixed Income Portfolio Advisor* | *Fixed Income Strategies Team*

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior
Initial Jobless Claims	Sep 18	320k	-	332k
Continuing Claims	Sep 11	2600k	-	2665k
Markit US Manufacturing PMI	Sep P	61.0	-	61.1
Markit US Services PMI	Sep P	54.9	-	55.1
Markit US Composite PMI	Sep P	-	-	55.4
Chicago Fed Nat Activity Index	Aug	0.50	**0.29**	0.75

Chart: Services PMI in Constant Decline Since Peaking in May



Source: RBC Wealth Management, Bloomberg

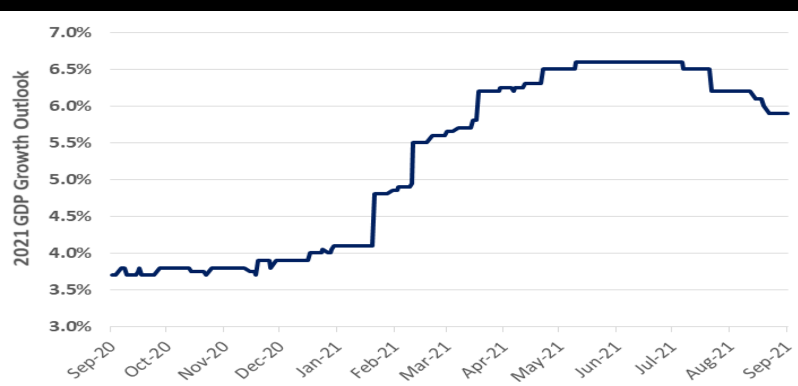
Our Thoughts

- PMIs are projected to move slightly lower across all sectors as elevated COVID case counts will likely provide setbacks surrounding economic growth. Previously from August payrolls, job growth in leisure & hospitality declined to zero as consumer spending shifts from services towards goods amid health concerns. **As shown by the left chart, services PMI has been in constant decline after peaking in May; manufacturing PMI has shown slight weakness as of late, but levels overall are positively trending higher since the start of the pandemic.**
- Initial jobless claims are projected to lower again as labor market conditions continue improving across the country. Labor demand is very high right now as staff shortages are a prominent concern, especially in the small business sector.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior
Existing Home Sales	Aug	5.89m	**5.88m**	6.00m
Existing Home Sales MoM	Aug	-1.7%	**-2.0%**	2.2%
FOMC Rate Decision Lower Bound	Sep 22	0.00%	**0.00%**	0.00%
FOMC Rate Decision Upper Bound	Sep 22	0.25%	**0.25%**	0.25%
MBA Mortgage Applications	Sep 17	-	**4.9%**	0.3%

Chart: FOMC Growth Outlook Revised to 5.9% for 2021



Source: RBC Wealth Management, Bloomberg

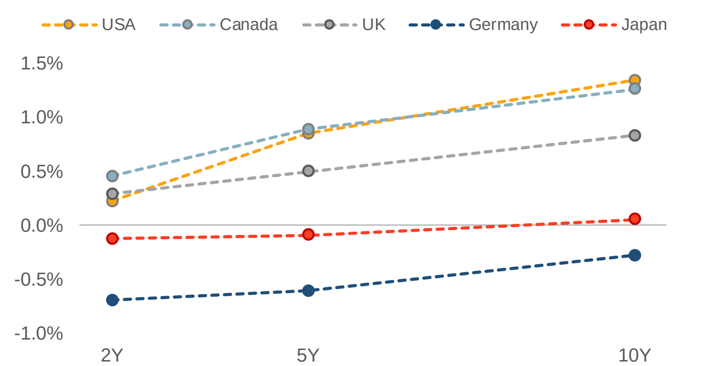
Our Thoughts

- Yesterday's Fed statement holds a steady course on interest rate policy. **However, the Fed did provide new language signaling their readiness to begin tapering "if progress continues broadly as expected.**" Policy makers are anticipating slower growth this year at 5.9% as displayed by the left chart. However, the Fed boosted their growth outlook in 2022 from 3.3% to 3.8%, suggesting the Fed is holding on to their "transitory" view on inflation.
- Existing home sales moved slightly lower in the month of August following the downward trajectory in pending home sales and mortgage applications. Supply of single-family homes are marginally creeping higher, which is a positive sign for prospective homebuyers as they continue facing sky-high prices

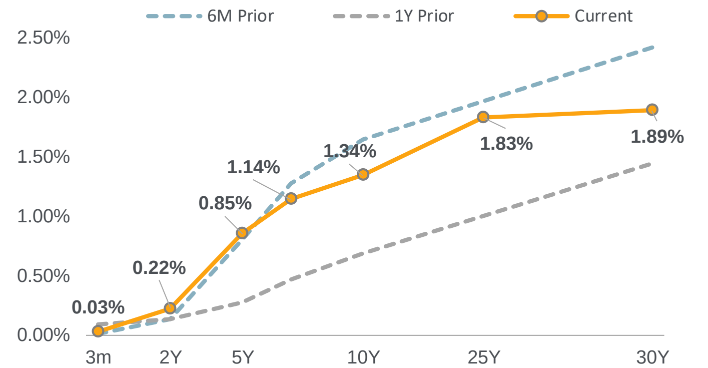
Federal Reserve & Sovereign Yields

		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Gov't	Treasuries	0.03	0.07	0.22	0.85	1.14	1.34	-	-	-	1.89
	Agencies	0.06	0.10	0.23	0.85	1.15	1.45	1.72	1.94	2.11	2.14
	AAA Munis	0.08	0.09	0.09	0.42	0.64	0.94	1.22	1.36	1.51	1.58
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



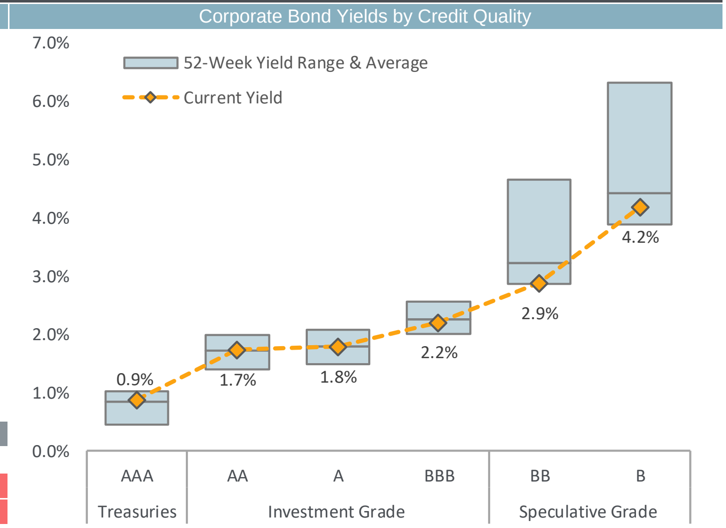
Fed Funds Forecasts	2020	2021	2022	2023
Fed's 'Dot Plot' (June)	0.25%	0.25%	0.25%	0.75%
Market Pricing	0.25%	0.25%	0.25%	0.75%
Our View	0.25%	0.25%	0.25%	0.50%

10Y Tsy Yield Forecasts	3Q21	4Q21	1Q22	2Q22
Consensus (Sep)	1.40%	1.57%	1.67%	1.80%
RBC Economics	1.55%	1.75%	1.85%	2.00%
Market Forwards	1.40%	1.46%	1.52%	1.58%

Corporates

Sector	1w Chng	Year-to-Date Performance
Treasuries	0.16%	-1.4
Investment Grade		
Index	0.25%	0.0
AA	0.33%	-0.5
A	0.23%	-0.8
BBB	0.24%	0.8
Speculative Grade		
Index	0.16%	5.0
BB	0.16%	4.5
B	0.10%	4.3
Preferred Shares		
Fixed-Rate	0.36%	5.8
Hybrids	0.19%	5.8
Equities		
S&P 500	0.37%	20.3

Corporate Bond Yields by Credit Quality

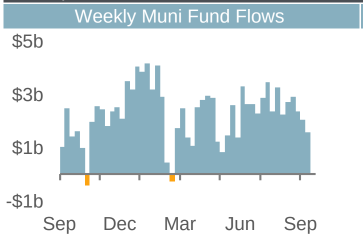


Credit Spreads over Treasuries (bps)

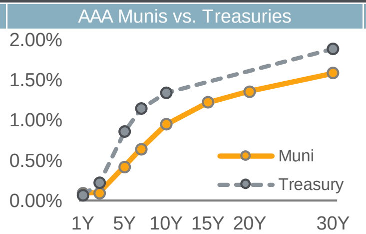
	Current	5Y Low	5Y Avg	5Y High
Investment Grade	**86**	*80*	*117*	*373*
Speculative Grade	**275**	*262*	*398*	*1100*

Municipals

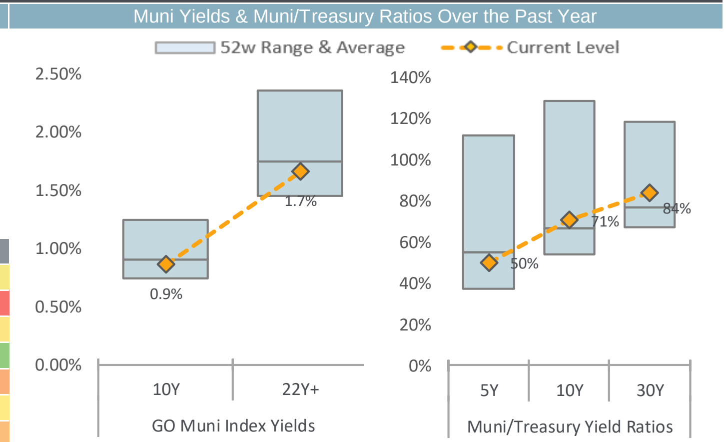
Weekly Muni Fund Flows



AAA Munis vs. Treasuries



Muni Yields & Muni/Treasury Ratios Over the Past Year



Select State Benchmark Yields

CA	0.91%	PA	1.05%	AZ	0.95%
NY	1.04%	OH	0.96%	CT	0.80%
TX	0.91%	VA	0.84%	NC	0.93%
FL	1.05%	MD	0.82%	MI	1.06%
WA	0.79%	NJ	1.11%	WI	0.87%
IL	1.07%	CO	1.06%	OR	0.94%
MA	0.90%	GA	0.96%	MN	0.89%

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

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