

# U.S. FIXED INCOME STRATEGIES

## Daily Market View



Wealth  
Management

Monday, December 11, 2023

Market Snapshot	Today	Prior Session
<b>SOFR</b>	5.32%	5.32%
<b>10-year Treasury</b>	4.28%	4.23%
<b>S&amp;P 500</b>	4,657	4,604
<b>IG Corporates</b>	5.51%	5.43%
<b>HY Corporates</b>	8.29%	8.25%
<b>Municipals</b>	3.46%	3.45%

### Rates & credit

Treasury bond prices are facing some downward price pressure in premarket trading, pushing yields—which move inversely to price—higher by 3-5 basis points across the curve as investors prepare for scheduled Treasury auctions today. Treasury bond performance has continued bifurcating over the last week, with shorter maturities underperforming. Treasuries maturing in 2 years have seen prices fall and yields rise by about 12 basis points, while 10- and 30-year bonds have seen yields decline by 5 basis points.

A stronger-than-expected jobs report released Friday showed 199,000 jobs were added in the U.S. during November. The acceleration in job gains stands in contrast with other recent labor market data that have indicated softer hiring, an outcome that would be desired by the Federal Reserve as it tries to bring inflation back to its 2% target. While that softer economic data over the last several weeks has sent yields about 40 basis points lower – putting Treasury performance in the black year-to-date – Friday's job report pushed the 10-year Treasury yield about 14 basis points higher to 4.27%, the largest upward move in four weeks.

This week, we will be watching the November Consumer Price Index release on Tuesday, which is expected to show headline inflation remaining unchanged at 0.0%, suppressed by falling energy prices, while core prices are forecast to advance 0.3% compared to 0.2% the month prior, according to a Bloomberg survey of economists. Outside of the economic data calendar, the U.S. Treasury is scheduled to sell 3-, 10-, and 30-year bonds today and Tuesday. While Treasury auctions have traditionally been uneventful, recent long-term bond auctions have been poorly received by the market, pushing long-term yields higher as supply outpaces demand. Another lackluster auction could create potential headwind for bond performance in the near term, in our view.

Finally, the headline event of the week will be the FOMC's final meeting of 2023, which concludes on Wednesday. Fed funds futures market data suggests that the central bank may keep rates on hold for a third consecutive meeting, a view that we share. The Summary of Economic Projections will also get an update at this meeting. We expect downward revisions to the committee's inflation forecasts and upward revisions to economic growth, while the dot plot – or a graphic representation of where each committee member projects the appropriate policy rate will be over the next several years and longer term – may indicate that more members envision rate cuts materializing in 2024.

Event	Period	Survey	Actual	Prior
<b>Change in Nonfarm Payrolls</b>	Nov	185k	<b>199k</b>	150k
<b>Unemployment Rate</b>	Nov	3.9%	<b>3.7%</b>	3.9%
<b>Average Hourly Earnings MoM</b>	Nov	0.3%	<b>0.4%</b>	0.2%
<b>Average Hourly Earnings YoY</b>	Nov	4.0%	<b>4.0%</b>	4.0%
<b>U. of Mich. Sentiment</b>	Dec P	62.0	<b>69.4</b>	61.3

### U.S. economic data review

The U.S. labor market unexpectedly strengthened during the month of November, softening bets that policymakers will begin cutting rates early next year. According to the report, nonfarm payrolls advanced to 199k while unemployment ticked lower from 3.9% to 3.7%.

Manufacturing payrolls received a boost from resolution of the United Auto Workers strike, although hiring in healthcare, leisure & hospitality, and government positions also increased in November, lifting average hourly earnings on a month-over-month basis.

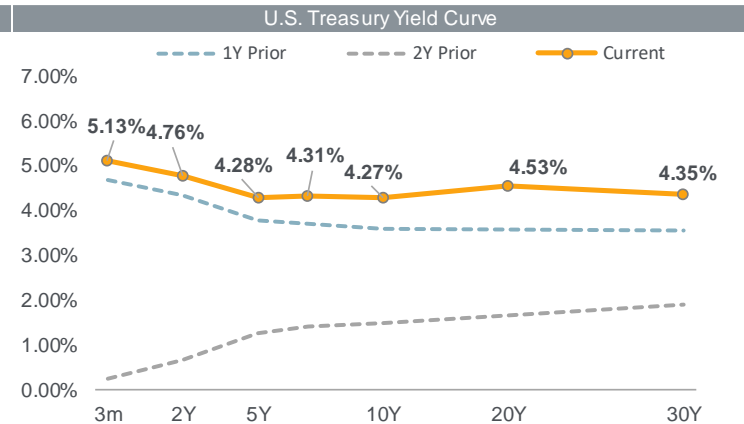
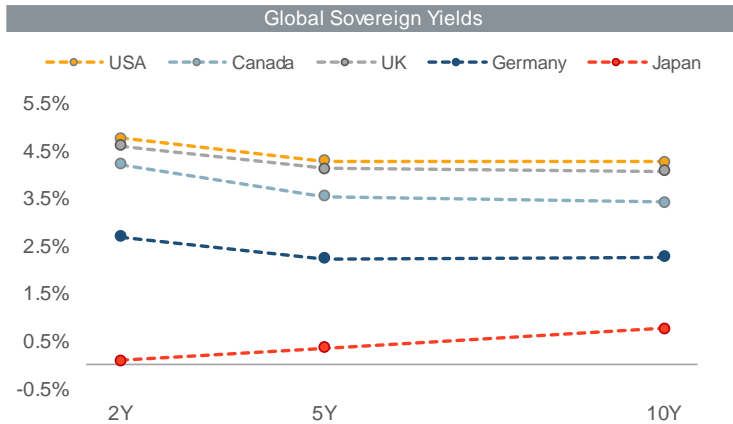
The University of Michigan's consumer sentiment index jumped over 8 points to a four-month high of 69.4 as households dialed back inflation expectations for next year to 3.1%, the lowest level since March 2021. Falling energy prices also improved sentiment, with gasoline prices being the cheapest they've been all year.

### Municipals

Tax-exempt municipal yields ended Friday's trading session unchanged after yields trended lower throughout the week. The benchmark 5-10- and 30-year municipals ended the session yielding 2.47%, 2.51% and 3.71%, respectively.

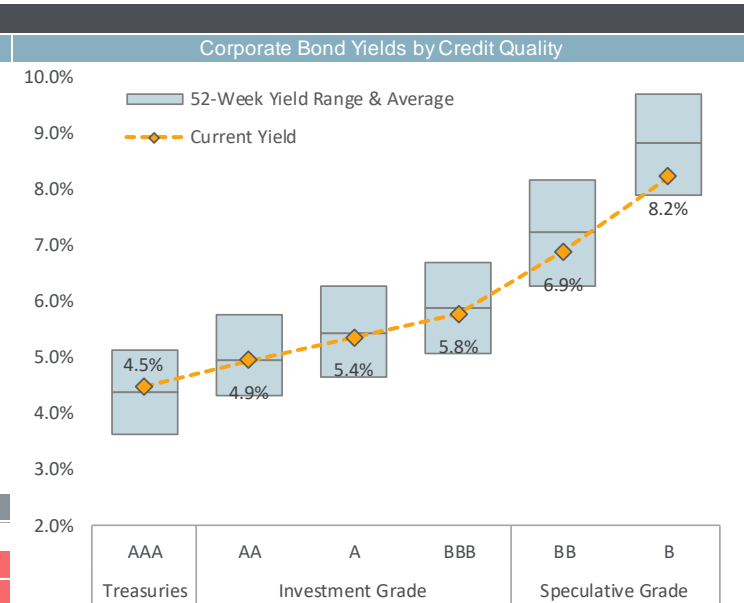
A significant slowdown in income tax revenue is exposing California to a potential \$68 billion budget deficit. The deficit would mark the second consecutive year the state is facing a budget deficit. Absent a revenue rebound, the budget deficit could force the state to make cuts to safety-net programs, according to the state's budget director.

Federal Reserve & Sovereign Yields		3M	1Y	2Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
Govt	Treasuries	5.23	4.86	4.76	4.28	4.31	4.27	-	-	-	4.35
	Agencies	5.34	5.21	4.78	4.39	4.46	4.56	4.70	4.91	4.99	5.04
	AAA Munis	2.82	2.81	2.73	2.47	2.46	2.55	3.15	3.40	3.58	3.66
IG Corp	AA	5.33	5.27	4.93	4.64	4.69	4.84	5.03	5.14	5.11	5.13
	A	5.60	5.47	5.14	4.92	5.01	5.19	5.39	5.47	5.38	5.33
	BBB	6.01	5.91	5.63	5.47	5.57	5.69	5.86	5.91	5.76	5.71
HY Corp	BB	6.29	6.35	6.31	6.50	6.72	6.95	7.23	7.29	7.11	7.06
	B	6.31	6.50	6.70	7.36	7.65	7.83	8.19	8.18	7.96	7.88

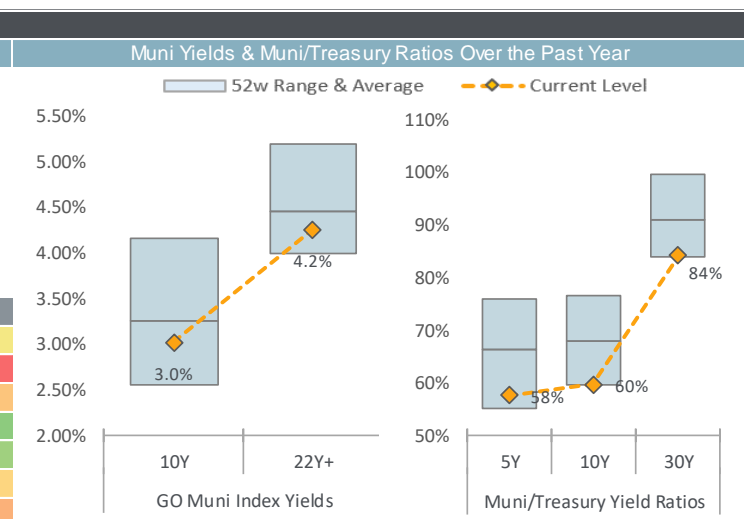
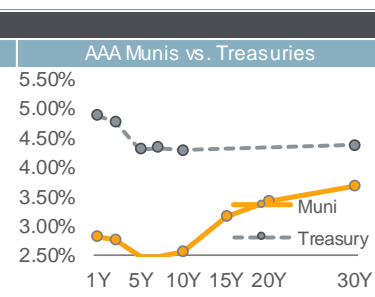
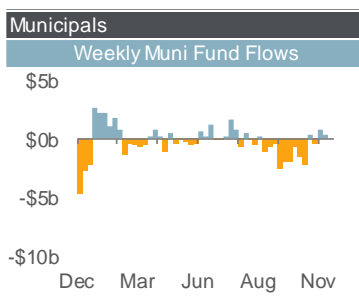


Fed Funds Forecasts	YE2023	YE2024	YE2025	Long-term	10Y Tsy Yield Forecasts	4Q23	1Q24	2Q24	3Q24
Fed's 'Dot Plot' (Sep)	5.75%	5.25%	4.00%	2.50%	Consensus (Oct)	4.46%	4.28%	4.09%	3.91%
Market Pricing	5.50%	4.50%	3.75%		RBC CM (Oct)	4.50%	4.40%	4.20%	4.05%
Our View	5.50%	4.50%	3.00%	2.75%	Market Forwards	4.24%	4.22%	4.21%	4.21%

Sector	1w Chng	Year-to-Date Performance
Treasuries	0.35%	1.5
Investment Grade		
Index	0.50%	5.2
AA	0.55%	3.9
A	0.51%	4.5
BBB	0.47%	6.0
Speculative Grade		
Index	0.27%	10.1
BB	0.18%	8.7
B	0.25%	10.6
Preferred Shares		
Fixed-Rate	0.13%	6.7
Hybrids	0.36%	4.1
Equities		
S&P 500	0.78%	21.8



Credit Spreads over Treasuries (bps)	Current	5Y Low	5Y Avg	5Y High
Investment Grade	105	80	123	373
Speculative Grade	360	262	415	1100



Select State Benchmark Yields			
CA	3.26%	PA	3.61%
NY	3.44%	OH	3.43%
TX	3.50%	VA	3.40%
FL	3.67%	MD	3.27%
WA	3.20%	NJ	3.50%
IL	3.68%	CO	3.53%
MA	3.36%	GA	3.60%
		AZ	3.45%
		CT	3.07%
		NC	3.33%
		MI	3.62%
		WI	3.59%
		OR	3.38%
		MN	3.28%

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

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