

# U.S. FIXED INCOME STRATEGIES

## Daily Market View



Wealth  
Management

Friday, March 8, 2024

| Market Snapshot  | Today | Prior Session |
|------------------|-------|---------------|
| SOFR             | 5.31% | 5.31%         |
| 10-year Treasury | 4.05% | 4.10%         |
| S&P 500          | 5,157 | 5,105         |
| IG Corporates    | 5.29% | 5.31%         |
| HY Corporates    | 7.78% | 7.80%         |
| Municipals       | 3.37% | 3.39%         |

### Rates & credit

Treasury bond prices are drifting higher in overnight trading, pushing yields—which move inversely to price—lower by ~1 bps across the curve. We believe premarket trading is likely to be limited in both volume and price change with investors focused on today's Nonfarm Payroll data.

Economists surveyed by Bloomberg expect the February data to show a 200,000 increase in overall employment, a drop from January's unexpectedly robust 353,000 payroll build. Higher-than-average temperatures in February may skew the data upwards, as construction and other weather-dependent sectors were able to get an early start on hiring this year. The ADP Employment Report released earlier this week did show a softer outlook than survey data expected, but there can be significant month-to-month variation between the two reports.

The Fed is likely to remain highly focused on employment as they consider loosening monetary policy. The Fed's primary concern, in our view, is to avoid cutting ahead of any resurgence of inflation, and wages are one of the primary drivers of consumption and by extension inflation. Any labor market softening would reduce upward wage pressure and could lead the Fed to consider earlier cuts. The recently released Beige Book—a qualitative survey of economic conditions across the country—indicated greater worker availability in many sectors and there have been multiple press reports of layoffs at numerous large employers. Prior anecdotal reports of labor market softness, however, have failed to feed through into the official data, so we believe the Fed will want to see at least two weaker jobs reports before concluding that wage inflation risks are moderating.

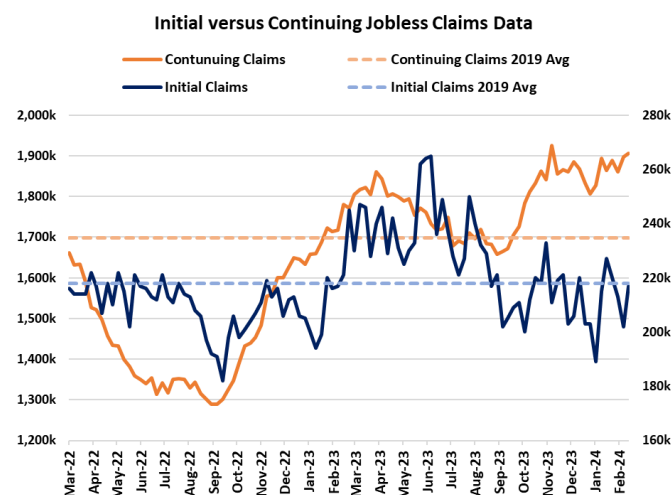
Credit spreads, which reflect the yield difference between corporate bonds and similar maturity Treasury securities, continue to tighten on an index basis. Spreads on High Yield CDX, an agglomeration of credit derivative prices from 100 of the largest sub-investment grade issuers, are at 3.3%, down nearly 2% since last October. Falling spreads indicate corporate bond outperformance over Treasuries, often driven by lower perceived default risk.

| Event                  | Period | Survey | Actual        | Prior  |
|------------------------|--------|--------|---------------|--------|
| Initial Jobless Claims | Mar 2  | 216k   | <b>217k</b>   | 217k   |
| Continuing Claims      | Feb 24 | 1880k  | <b>1906k</b>  | 1898k  |
| Trade Balance          | Jan    | -63.5b | <b>-67.4b</b> | -64.2b |

### U.S. economic data review

Initial jobless claims moved slightly higher for the week ending March 2, although figures over the past four weeks are still below the 2019 average despite a recent flurry of layoff announcements, mostly from finance, banking, and technology companies.

The chart below compares 2019 averages for both initial and continuing jobless claims. While initial claims remain below the average, continuing claims have been on the rise since last fall and currently sit well-above the 2019 average, suggesting unemployed Americans are taking longer to find jobs.



Source: RBC Wealth Management, Bloomberg;

### Municipals

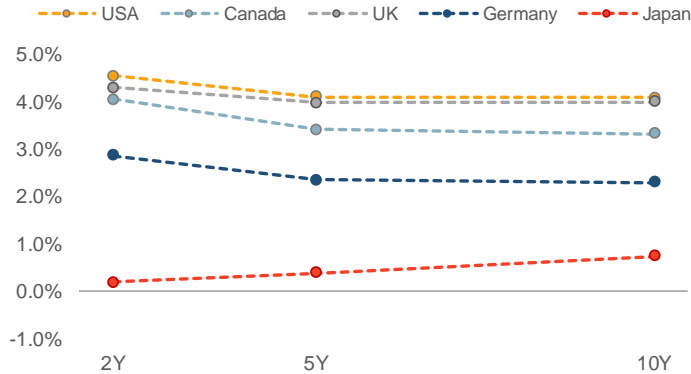
It was a mixed trading day for municipals with yields mostly unchanged. Yields on the benchmark 10-year municipal firmed by 2 bps, while yields on the 5-year and 30-year held steady. The benchmark 10-year ended the session yielding 2.40%.

A survey of 33 states found that January sales tax collections rose to \$30.7 billion, up 1.5% from the prior year. Collections were mixed between categories. General sales and motor fuel tax receipts rose 0.5% and 14%. Although tobacco, alcoholic beverage, and lodging tax receipts all fell with lodging taxes declining the most of the three categories.

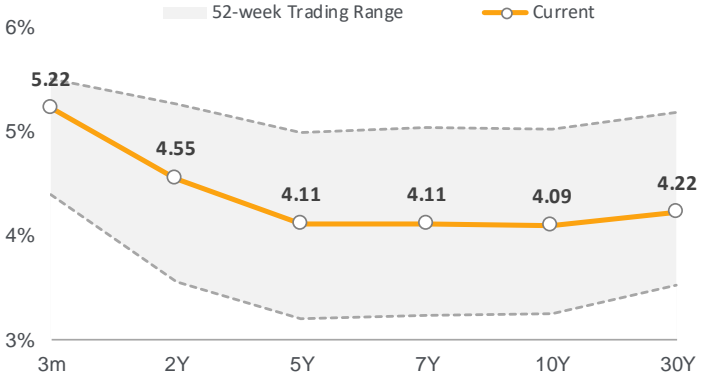
Federal Reserve & Sovereign Yields

|         |            | 3M   | 1Y   | 2Y   | 5Y   | 7Y   | 10Y  | 15Y  | 20Y  | 25Y  | 30Y  |
|---------|------------|------|------|------|------|------|------|------|------|------|------|
| Gov't   | Treasuries | 5.22 | 4.70 | 4.55 | 4.11 | 4.11 | 4.09 | -    | -    | -    | 4.22 |
|         | Agencies   | 5.47 | 5.06 | 4.59 | 4.18 | 4.20 | 4.32 | 4.53 | 4.79 | 4.86 | 4.90 |
|         | AAA Munis  | 3.04 | 2.94 | 2.79 | 2.43 | 2.39 | 2.48 | 3.11 | 3.37 | 3.59 | 3.66 |
| IG Corp | AA         | 5.33 | 5.17 | 4.82 | 4.56 | 4.61 | 4.75 | 4.94 | 5.06 | 5.01 | 5.03 |
|         | A          | 5.51 | 5.31 | 4.96 | 4.77 | 4.87 | 5.05 | 5.25 | 5.35 | 5.28 | 5.28 |
|         | BBB        | 5.81 | 5.66 | 5.35 | 5.19 | 5.31 | 5.47 | 5.65 | 5.72 | 5.61 | 5.61 |
| HY Corp | BB         | 6.02 | 6.03 | 5.98 | 6.22 | 6.42 | 6.60 | 6.81 | 6.81 | 6.63 | 6.61 |
|         | B          | 5.98 | 6.07 | 6.21 | 6.89 | 7.16 | 7.31 | 7.61 | 7.72 | 7.56 | 7.48 |

Global Sovereign Yields



U.S. Treasury Yield Curve

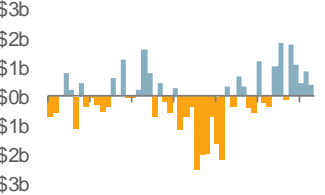
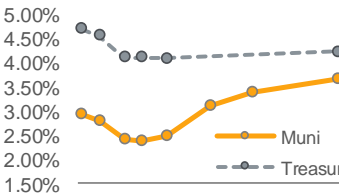
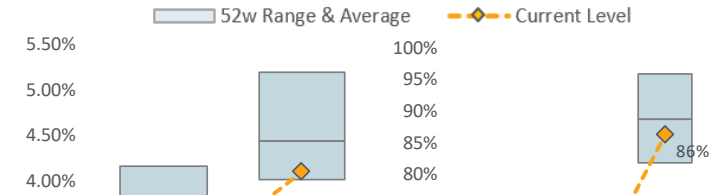


| Fed Funds Forecasts    | YE2024 | YE2025 | YE2026 | Long-term | 10Y Tsy Yield Forecasts | 1Q24  | 2Q24  | 3Q24  | 4Q24  |
|------------------------|--------|--------|--------|-----------|-------------------------|-------|-------|-------|-------|
| Fed's 'Dot Plot' (Dec) | 4.75%  | 3.75%  | 3.00%  | 2.50%     | Consensus (Feb)         | 4.14% | 3.98% | 3.87% | 3.83% |
| Market Pricing         | 4.45%  | 3.75%  | 3.00%  |           | RBC CM (Feb)            | 4.15% | 4.00% | 3.85% | 3.80% |
| RBC CM                 | 4.25%  | 3.50%  |        |           | Market Forwards         | 4.07% | 4.05% | 4.05% | 4.05% |

Corporates

| Sector                               | 1w Chng       | Year-to-Date Performance | Corporate Bond Yields by Credit Quality  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
|--------------------------------------|---------------|--------------------------|--|---------|--|--|--|--|----------------|---------------|------------|------|-----|------|----|------|---|------|-----|------|----|------|
| Treasuries                           | 0.85%         | -0.7                     | <table><tr><th>Credit Quality</th><th>Current Yield</th></tr><tr><td>Treasuries</td><td>4.3%</td></tr><tr><td>AAA</td><td>4.9%</td></tr><tr><td>AA</td><td>5.2%</td></tr><tr><td>A</td><td>5.5%</td></tr><tr><td>BBB</td><td>6.6%</td></tr><tr><td>BB</td><td>7.6%</td></tr></table> |         |  |  |  |  | Credit Quality | Current Yield | Treasuries | 4.3% | AAA | 4.9% | AA | 5.2% | A | 5.5% | BBB | 6.6% | BB | 7.6% |
| Credit Quality                       | Current Yield |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Treasuries                           | 4.3%          |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| AAA                                  | 4.9%          |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| AA                                   | 5.2%          |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| A                                    | 5.5%          |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| BBB                                  | 6.6%          |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| BB                                   | 7.6%          |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Investment Grade                     |               |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Broad Index                          | 0.99%         | -0.7                     |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| AA                                   | 1.10%         | -1.1                     |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| A                                    | 1.00%         | -0.8                     |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| BBB                                  | 0.95%         | -0.6                     |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Speculative Grade                    |               |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Broad Index                          | 0.46%         | 0.7                      |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| BB                                   | 0.42%         | 0.3                      |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| B                                    | 0.45%         | 0.7                      |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Preferred Shares                     |               |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Fixed-Rate                           | 0.11%         | 3.9                      |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Hybrids                              | 0.12%         | 2.6                      |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Equities                             |               |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| S&P 500                              | 0.20%         | 7.3                      |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Credit Spreads over Treasuries (bps) |               |                          |  |         |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
|                                      | Current       | 5Y Low                   | 5Y Avg   | 5Y High |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Investment Grade                     | 97            | 80                       | 121  | 373     |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |
| Speculative Grade                    | 315           | 262                      | 410  | 1100    |  |  |  |  |                |               |            |      |     |      |    |      |   |      |     |      |    |      |

Municipals

| Weekly Muni Fund Flows   |       |    | AAA Munis vs. Treasuries  |    |       | Muni Yields & Muni/Treasury Ratios Over the Past Year                                |  |  |
|--|-------|----|---|----|-------|--|--|--|
|  |       |    |  |    |       |  |  |  |
| Select State Benchmark Yields  |       |    |   |    |       |  |  |  |
| CA   | 3.13% | PA | 3.49%   | AZ | 3.36% |  |  |  |
| NY   | 3.37% | OH | 3.35%   | CT | 3.01% |  |  |  |
| TX   | 3.43% | VA | 3.33%   | NC | 3.28% |  |  |  |
| FL   | 3.58% | MD | 3.21%   | MI | 3.52% |  |  |  |
| WA   | 3.18% | NJ | 3.38%   | WI | 3.49% |  |  |  |
| IL   | 3.57% | CO | 3.43%   | OR | 3.29% |  |  |  |
| MA   | 3.23% | GA | 3.52%   | MN | 3.23% |  |  |  |

The information contained in this report has been compiled by RBC Wealth Management from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. The material contained herein is not a product of any research department of RBC Capital Markets, LLC or any of its affiliates. Nothing herein constitutes a recommendation of any security or regarding any issuer; nor is it intended to provide information sufficient to make an investment decision. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Diversification does not assure a profit or protect against loss. Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Non-investment grade rated bonds (a.k.a. high yield bonds) tend to be subject to larger price fluctuations than investment grade rated bonds and payment of interest and principal is not assured. Investing in municipal bonds involves risks, such as interest rate risk, credit risk and market risk, including the possible loss of principal. Clients should contact their tax advisor regarding the suitability of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on state of residence. Income from municipal bonds could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. The investments or services contained in this report may not be suitable for you and it is recommended that you consult your financial advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither RBC Wealth Management nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of RBC Wealth Management in each instance. RBC Wealth Management is a division of RBC Capital Markets, LLC, member NYSE/FINRA/SIPC, which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada and part of the RBC Financial Group. Additional information is available upon request.

©2022 Royal Bank of Canada. All rights reserved.

DISCLAIMER: ICE BENCHMARK ADMINISTRATION LIMITED MAKES NO WARRANTY, EXPRESS OR IMPLIED, EITHER AS TO THE RESULTS TO BE OBTAINED FROM THE USE OF ICE LIBOR AND/OR THE FIGURE AT WHICH ICE LIBOR STANDS AT ANY PARTICULAR TIME ON ANY PARTICULAR DAY OR OTHERWISE. ICE BENCHMARK ADMINISTRATION LIMITED MAKES NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE IN RESPECT OF ANY USE OF ICE LIBOR.