



Daily Market View

Friday, August 12, 2016

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.22	2.27
10-year UST	1.49	1.56
5-year UST	1.07	1.15
2-year UST	0.68	0.74
6-Mo UST	0.42	0.44
3-Mo UST	0.28	0.28
10-year TIPS	0.05	0.09
10-year Corp	2.79	2.74
10-yr AAA Muni	1.44	1.43
3M LIBOR	0.82	0.82
Fed Funds	0.50	0.50
Prime Rate	3.50	3.50
CPI (YoY)	1.00	2.00
NASDAQ*	5,228	5,228
DJIA*	18,614	18,496
S&P 500*	2,186	2,175
Oil	\$43.66	\$43.49
Gold	\$1,348.50	\$1,342.50
Copper	\$215.30	\$219.10
Yen / US Dollar	¥101.03	¥101.96
Euro / \$US	€ 1.1209	€ 1.1137

Link: [Bloomberg Economic Calendar](#)

*Previous Day

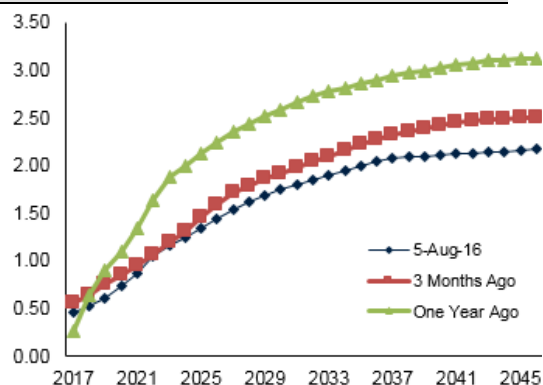
Client Friendly Publications

Municipal Market Insight [August, 2016](#)

Global Insight Weekly [August 5, 2016](#)

Global Insight Monthly [August, 2016](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

Overnight trading has pushed U.S. Treasury yields slightly lower this morning, about 2bps for both the 10-Year and 30-Year. Yesterday's 30-year auction didn't go quite as planned, as demand was lighter than expected and yields were pushed higher. Treasury auctions will be on hold until next week.

Yesterday, a German cooperative savings bank announced negative rates on its consumer deposits, creating concern as to whether more European banks will follow.

Although the probability of a rate hike in 2016 still remains low at 49%, all eyes will be on Central Banks. The FOMC has 4 speakers scheduled for next week, including NY Fed Chair William Dudley, and St. Louis Fed Chair James Bullard. The ECB will release its July meeting minutes, and the markets will be looking for any hints about future QE in Europe.

Credit

Macy's & Kohl's Report Better Earnings, but... Both stocks were up 16%+ yesterday, but the credit picture remains murky. CreditSights downgraded Macy's to market perform in mid-June and was unchanged on the back of earnings; Kohl's was downgraded to under perform at the same time, also unchanged today.

S&P also shifted Kohl's BBB rating to a Negative outlook (33% chance of a downgrade in 1-2 years) on industry headwinds and declining same-store sales.

The big news was Macy's decision to shutter an additional 100 stores (~15%, YTD total of 140) for a loss of about \$1bn in sales, Macy's expects that the lost EBITDA will be minimized from shifting customers to other stores and cost cuts. The company also cut share repurchases for the Q – likely to appease the agencies.

Leverage ticked higher to 3.0x, but management said they continue to target the 2.5x-2.8x range.

Municipals

Munis began the day strong but reversed course toward the afternoon with issues 10 years and out losing 1bp. The 30-year muni/Treasury ratio has surpassed 95%, a level that typically signals a good entry point for investors. The Bond Buyer 30-day visible supply was bumped \$1.266B to \$8.647B.

California is beginning fiscal 2017 on the wrong foot as slow job growth and weak retail sales caused July revenue to fall \$591.3 million short, compared to the Governor's 2017-18 fiscal budget. All three of the state's main revenue sources (retail sales and use taxes; personal income taxes; corporation taxes) missed projections.

Muni mutual fund inflows marked their 45th consecutive week of inflows as investors poured in \$871 million, the highest in three weeks.

Key U.S. Economic Data Releases

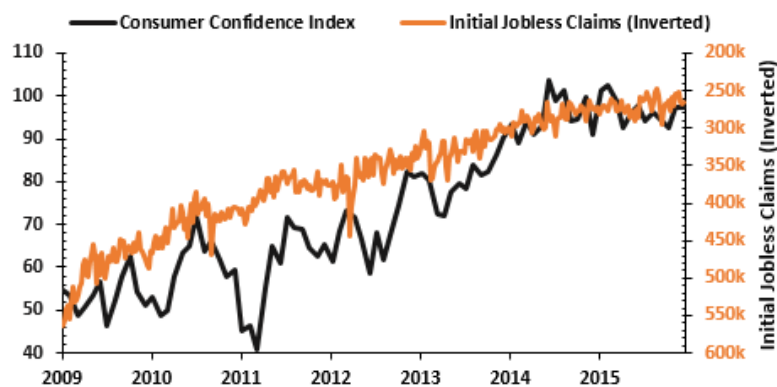
Link: [Bloomberg U.S. Economic Calendar](#)

Event	Period	Survey	Actual	Prior	Commentary
Retail Sales MoM	July	0.4%	-	0.6%	Consumers were expected to have kept the cash registers ringing in July, with retail sales expected to have increased for the fourth consecutive month.
PPI MoM	July	0.1%	-	0.5%	PPI is only expected to have increased a meager 0.1% in July, as a strong dollar has constrained wholesale goods prices.
U. of Michigan Sentiment	Aug P	91.5	-	90.0	Sentiment struggled in July due to global uncertainty, but is expected to rebound in August after a strong July jobs report.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Import Price Index	July	-0.4%	0.1%	0.2%	Labor Market Strength to Drive Consumer Spending Sustained low level of initial and continuing jobless claims shows the steadiness in the current labor market and signals strength in overall employment, which is welcomed news in a time when economists are looking for potential cracks in the U.S. economic landscape. The historically low level of jobless claims suggest an increase in job security, which potentially provides an increase in consumers' confidence to spend. The Bloomberg Consumer Comfort Index fell in August, led by a slump of 3.1 points in personal finances. The downshift may indicate that consumers feel a bit over extended, as consumer spending growth outpaced personal income growth from April through June.... Further evidence that job and income gains are going to have to fuel future increases in consumer spending.
Initial Jobless Claims	Aug 6	265k	266k	269k	
Continuing Claims	July 30	2,133k	2,155k	2,138k	
Consumer Comfort	Aug 7	-	41.8	43.0	

Low Jobless Claims Fuels Consumer Confidence



Source: RBC Wealth Management, Bloomberg

RBC Capital Markets – North American Morning Comment

U.S.: Some domestic data to (finally) close out the week

- The week closes out with some data for the market to finally sink its teeth into. The gold medal performer of the U.S. economy has been the consumer – growth in real household expenditures some 2.7% above year-ago levels – and we expect that trend to continue in today's release for July. Control sales are expected to increase 0.3% (headline +0.4% m/m, with offsetting movements from weaker gasoline prices and higher unit auto sales), after averaging 0.7% over the past three months. The gain would leave nominal sales in the control group up 3.1% at an annual rate above the Q2 average and RBC is looking for the consumer to continue its steady pace over the second half of the year, with real household expenditures averaging 2.5%.
- Producer prices are expected to rise a modest 0.1% m/m (core prices up 0.2%), with a firmer increase potentially increasing interest in next week's CPI report, while the 10am releases – June business inventories and August University of Michigan confidence – could draw also draw interest. Inventory volumes are poised to bounce after a record five consecutive quarterly declines through the Q2 national accounts, while the August Michigan confidence measure (which can be sensitive to equity movements) is expected to improve to 91.5 from 90.0. There is a mixed tone heading into today's trading, with North American equity futures modestly higher, but Treasury yields down 1-2bp and the USD virtually unchanged from last night's close on a trade-weighted, DXY basis.



Fixed Income Yield Curves									
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	2.84%	2.13%	1.10%	0.81%	0.76%	-	0.29%	0.28%	12.6%
6M	2.97	2.22	1.19	0.88	0.80	-	0.41	0.42	19.0%
1Y	3.22	2.40	1.35	0.99	0.88	0.42%	0.84	0.53	23.8%
2Y	3.86	2.97	1.66	1.23	1.07	0.43	0.95	0.69	31.0%
3Y	4.30	3.43	1.93	1.45	1.27	0.45	1.01	0.81	36.2%
4Y	4.65	3.81	2.16	1.63	1.45	0.52	1.23	0.94	42.4%
5Y	4.95	4.15	2.38	1.81	1.65	0.65	1.70	1.08	48.5%
7Y	4.95	4.73	2.78	2.15	1.84	0.88	2.19	1.18	53.2%
8Y	5.42	4.95	2.94	2.29	2.01	1.01	-	1.29	57.9%
9Y	5.61	5.16	3.08	2.44	2.16	1.15	-	1.39	62.6%
10Y	5.78	5.37	3.23	2.60	2.30	1.25	2.30	1.50	67.3%
15Y	5.97	6.13	3.89	3.33	2.43	1.67	-	1.68	75.5%
20Y	6.72	6.53	4.21	3.61	2.97	1.91	2.52	1.86	83.7%
25Y	6.94	6.68	4.21	3.62	3.32	2.06	0.00	2.04	91.8%
30Y	-	-	4.14	3.59	3.50	2.17	-	2.22	100.0%

Global Sovereign 10Y Yields				Credit Spreads (5-Years; Average: Orange line)			
	Current	-1m	-6m	Investment Grade			
USA	1.50	1.51	1.75				
Canada	0.98	1.06	1.13				
Brazil	4.38	4.73	6.98				
Mexico	2.79	2.92	4.18				
UK	0.52	0.83	1.41				
France	0.11	0.19	0.65				
Germany	-0.11	-0.09	0.26				
Italy	1.05	1.22	1.65				
Spain	0.93	1.17	1.74				
Portugal	2.69	3.12	3.71				
Greece	8.00	7.78	11.27				
Japan	-0.12	-0.28	0.08				
Australia	1.90	1.94	2.42				
Hong Kong	0.81	0.90	1.40				
China	2.62	2.84	2.87				

Treasury Yield Curve

3-Month UST Curve Spread Trends		
2s - 5s	Now 41 Avg 43	
2s - 10s	Now 85 Avg 89	
5s - 30s	Now 115 Avg 123	
7s - 10s	Now 17 Avg 19	
10s - 30s	Now 71 Avg 77	

Corporate Bonds	Spread Performance			Total Return Data (%)			
	OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Treasury Index	-	-	-	5.10	(0.70)	1.41	4.61
Investment Grade	145	-4.0	-1.9	8.78	(0.24)	7.89	7.93
AA	83	-5.3	-0.9	6.83	(0.47)	5.00	7.25
A	117	-3.8	-2.2	7.80	(0.45)	6.08	8.04
BBB	186	-4.0	-2.1	10.18	0.01	10.28	7.95
Barclays US HY Index	509	-5.8	-1.7	13.31	1.29	18.78	7.90
S&P Pref. Stock Index	-	-	-	7.02	1.26	-	8.64
Bank Loans (BKLN)	-	-	-	6.64	0.81	8.69	3.44

10-Year & 30-Year Muni/Treasury Yield Ratios

GO Municipal Benchmark 10y Yields (%)			
	Current	-1M	-6M
Composite	1.44	1.37	1.59
California	1.56	1.59	1.84
New York	1.41	1.38	1.69
Texas	1.60	1.62	1.79
Florida	1.57	1.53	1.73
Pennsylvania	2.04	2.00	2.08
Minnesota	1.49	1.51	1.73
Puerto Rico	13.86	11.77	11.53

Sector Performance	Avg Maturity (yrs)	Spread Performance			Total Return Data (%)			
		OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Basic Materials	12.0	198	-2.8	-1.5	14.88	0.29	15.11	9.32
Communications	13.9	168	-3.2	-0.8	11.28	(0.61)	10.51	12.23
Cons. Discretionary	10.8	141	-3.3	-1.1	8.21	(0.17)	6.63	8.08
Cons. Staples	11.5	141	-3.4	2.5	9.15	(0.86)	6.14	9.86
Energy	11.5	214	-6.6	0.7	13.32	(0.09)	18.48	4.86
Financials	7.5	139	-3.9	-4.8	5.65	0.09	5.25	6.27
Health Care	11.9	122	-4.0	-0.9	8.85	(0.23)	6.15	9.96
Industrials	12.5	114	-2.7	-2.2	9.21	(0.48)	6.21	9.23
Technology	10.4	119	-5.2	-1.4	7.75	(0.26)	6.13	8.23
Utilities	14.8	143	-2.0	-0.2	10.03	(0.71)	5.84	9.05

UNITED STATES		10-Year Yield Forecasts (%)					
Survey Month: June		2Q2016	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
RBC Capital Markets		2.00	2.20	2.45	2.55	2.85	3.05
Bloomberg Median		1.83	2.00	2.11	2.30	2.40	2.50
<i>Bloomberg 1-Month Prior</i>		1.90	2.06	2.20	2.35	2.47	2.61

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	71.6	70.9	81.3	75.9
CDX High Yield	191bps	388.2	388.0	443.8	380.1

Portfolio Advisory Group – U.S. Fixed Income Strategies

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