



Daily Market View

Thursday, February 22, 2018

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	3.20	3.22
10-year UST	2.93	2.95
5-year UST	2.66	2.69
2-year UST	2.27	2.27
6-Mo UST	1.84	1.85
3-Mo UST	1.64	1.64
10-year TIPS	0.80	0.82
10-year Corp	3.99	3.95
10-yr AAA Muni	2.48	2.48
3M LIBOR	1.90	1.90
Fed Funds	1.50	1.50
Prime Rate	4.50	4.50
CPI (YoY)	2.10	2.00
NASDAQ*	7,218	7,218
DJIA*	24,798	24,965
S&P 500*	2,701	2,716
Oil	\$61.39	\$61.68
Gold	\$1,323.40	\$1,330.00
Copper	\$317.90	\$321.60
Yen / US Dollar	¥107.08	¥107.78
Euro / \$US	€ 1.2268	€ 1.2284

Link: [Bloomberg Economic Calendar](#)

*Previous Day

Client Friendly Publications

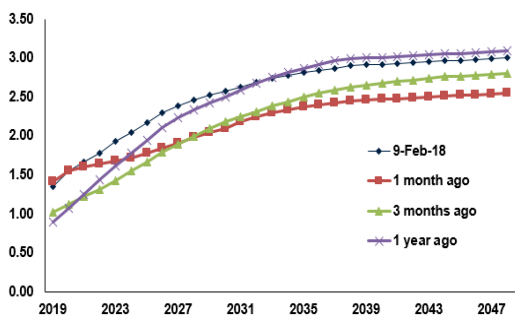
Municipal Market Insight [February 2018](#)

Credit Market Insight [February 2018](#)

Global Insight Weekly [February 15, 2018](#)

Global Insight Monthly [February 2018](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

Treasury yields are lower on the long-end of the yield curve this morning, paring back some of yesterday's post-FOMC meeting minute losses. The 10Y yield surged 6 bps yesterday to 2.95% - the highest since 2014 – as the hawkish tone in the January meeting minutes indicated further action from the Fed amidst higher than anticipated economic growth.

Based on the minutes, the Fed's slightly hawkish shift can be attributed mainly to projected economic strength, as Fed officials have been forced to rethink potential growth based on recent data and the potential impact from tax reform. At the time of the last rate forecast in December, the Tax Cuts and Jobs Act was not yet the law of the land, and although many officials had factored this into their outlooks, the late January meeting gave officials time to consider its impact. The minutes noted "the details of the tax legislation suggested that its effects on consumer and business spending – while still uncertain – might be a bit greater in the near term than they had previously thought." The Fed had already projected a 2.5% growth rate for the U.S. economy in 2018, but we wouldn't be surprised to see the Fed bump up this projection at the March Meeting.

And once again the Fed expressed some concerns over easy financial conditions, partially stemming from a pickup in the pace in growth. Keep in mind that the minutes note sentiment from January 31st – before stocks fell an additional 9% and financial conditions tightened notably – but nonetheless the minutes noted "imbalances in financial markets may begin to emerge as the economy continued to operate above potential."

Inflation has remained under the Fed's 2.0% target for the vast majority of this current recovery, allowing the Fed time to implement a slow and gradual approach towards removing emergency accommodation and returning policy to more normal levels. With the U.S. economy currently at what is considered full employment, markets have become obsessed with the inflation narrative to figure out future Fed policy moves. The January statement revealed that the inflation narrative within the FOMC continues to remain mixed, although it appears to now have a more hawkish tilt. The proof lies in a quote directly from the minutes, "a majority of participants noted that a strong outlook for economic growth raised the likelihood that further gradual policy firming would be appropriate" although some more dovish members countered back with "an appreciable risk that inflation would continue to fall short of the committee's objective" could likely keep policy moves on hold. Additionally, the Fed said at the January meeting that they expected inflation to 'move up' this year and stabilize around the 2% target in the 'medium term', with the Fed's forecasts calling for 2% inflation by next year.

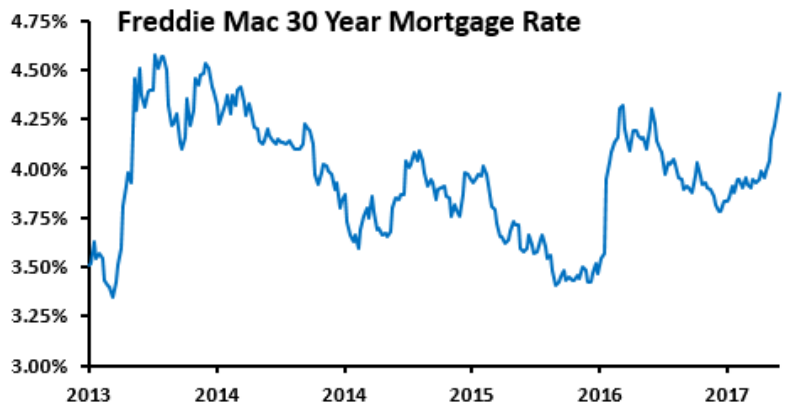
Since this meeting, a strong wage report in the January employment report has many market participants curious as to the Fed's thoughts on wage growth especially since prior to this release policy-makers expressed some degree of puzzlement in wages remaining stubbornly low. Committee members noted that the "pace of wage gains might not increase appreciably if productivity growth remains low," but "that said, a number of participants judged that the continued tightening in labor markets was likely to translate into faster wage increase at some point" Our read is that for now the Fed remains true to the Phillips curve, which is the relationship between the unemployment rate and inflation, although we note current Phillips Curve analysis would peg inflation above 3%, significantly higher than current economic estimates.

Strategy & Economics

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Initial Jobless Claims	Feb. 17	230k	-	230k	Jobless claims will garner increased significance this week given the survey week corresponds with the survey week for the BLS payrolls data, but expectations remain of multi-decade lows in claims pointing to the current strength of the labor market.
Continuing Claims	Feb. 10	1,935k	-	1,942k	
Leading Index	Jan.	0.7%	-	0.6%	The leading index is expected to expand at a 0.7% clip to start the year, reinforcing the Atlanta Fed GDP Now estimate of 3.2% economic growth in the first quarter of 2018.
Kansas City Fed Manufacturing Index	Feb.	18	-	16	We will continue to watch the prices paid and received component of regional manufacturing indexes to get a lens into any inflationary pressures that may be coming down the pipeline.

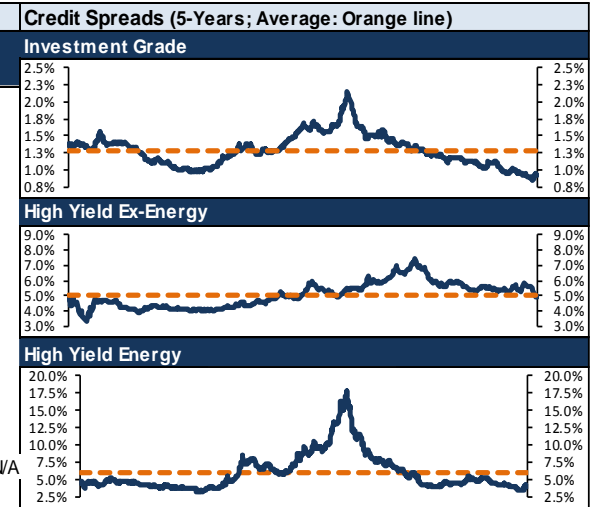
Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Existing Home Sales m/m	Jan.	0.5%	-3.2%	-3.6%	Existing home sales unexpectedly fell to start the year, with the pace of sales falling to a four month low, reinforcing the fact that the shortage of available affordable homes for sale is increasingly slowing the real estate industry. The National Association of Realtors indicated that property prices have jumped 41% in the last 5 years on average, while wages have only gained 12% - reducing affordability of housing as buyers compete with each other for the available homes on the market. Additionally, borrowing costs have risen substantially to start the year, with the average 30-year fixed mortgage rate rose to a 4 year high, paired with new tax legislation that limits the deductions on mortgage interest on expensive homes also weighed on selling activity. However, the lack of available inventory continues to remain the biggest headwind to new sales, and RBC Capital Markets Economist estimate that 30-year mortgage rates would have to touch 6% in order for mortgage rates to become a true headwind to selling activity.
 <p>Source: RBC Wealth Management, Bloomberg</p>					

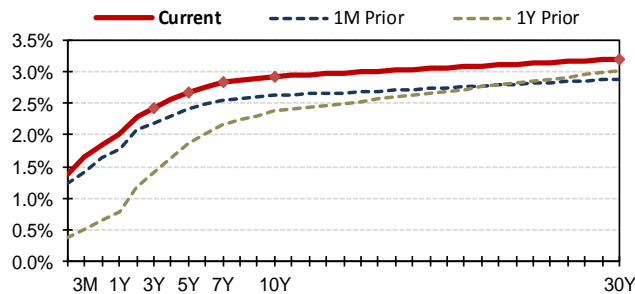


	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	3.34%	3.31%	2.31%	2.14%	2.04%	-	1.67%	1.64%	51.4%
6M	3.50	3.41	2.41	2.23	2.12	-	1.75	1.85	57.7%
1Y	3.79	3.60	2.61	2.40	2.26	1.35%	2.02	2.00	62.5%
2Y	4.42	4.02	2.91	2.67	2.55	1.55	2.22	2.27	70.9%
3Y	4.87	4.38	3.16	2.89	2.76	1.69	2.31	2.43	75.9%
4Y	5.23	4.67	3.35	3.04	2.92	1.80	2.32	2.55	79.7%
5Y	5.55	4.95	3.53	3.19	3.08	1.97	2.53	2.67	83.4%
7Y	6.11	5.47	3.86	3.46	3.23	2.20	2.92	2.73	85.4%
8Y	6.33	5.66	3.99	3.56	3.36	2.30	-	2.80	87.4%
9Y	6.53	5.83	4.10	3.66	3.48	2.41	-	2.86	89.4%
10Y	6.75	6.00	4.21	3.76	3.58	2.49	3.26	2.93	91.4%
15Y	7.71	6.67	4.59	4.12	3.67	2.83	-	2.99	93.6%
20Y	8.18	6.93	4.71	4.23	3.92	2.98	3.30	3.06	95.7%
25Y	8.51	6.66	4.67	4.22	4.02	3.04	3.33	3.13	97.9%
30Y	8.45	6.70	4.62	4.19	4.05	3.10	-	3.20	100.0%

	Global Sovereign 10Y Yields		
	Current	-1m	-6m
USA	2.93	2.65	2.21
Canada	2.32	2.24	1.92
Brazil	4.95	4.75	4.57
Mexico	4.26	3.97	3.58
UK	1.57	1.36	1.09
France	0.99	0.84	0.70
Germany	0.71	0.56	0.40
Italy	2.08	1.92	2.10
Spain	1.52	1.39	1.56
Portugal	1.99	1.92	2.75
Greece	4.27	3.82	5.52
Japan	0.05	0.07	0.04
Australia	2.87	2.86	2.65
Hong Kong	1.92	2.05	#NA N/A
China	3.85	3.95	3.65



Treasury Yield Curve

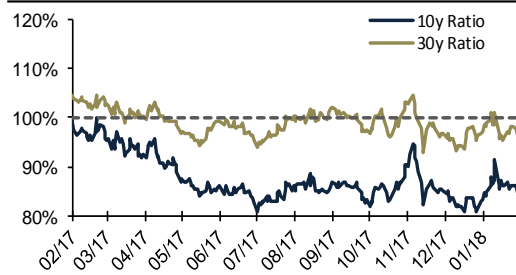


3-Month UST Curve Spread Trends	
2s - 5s	Now 43 Avg 36
2s - 10s	Now 68 Avg 58
5s - 30s	Now 53 Avg 55
7s - 10s	Now 10000001 Avg 8
10s - 30s	Now 28 Avg 32

Corporate Bonds

	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Treasury Index	-	-	-	-
Investment Grade	86	-2.1	3.7	-23.69
AA	54	1.9	14.9	-23.94
A	76	1.3	8.6	-20.83
BBB	116	0.0	4.5	-21.09
Barclays US HY Index	334	-3.5	7.4	-9.49
S&P Pref. Stock Index	-	-	-	-
Bank Loans (BKLN)	-	-	-	-

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



	GO Municipal Benchmark 10y Yields (%)		
	Current	-1M	-6M
Composite	2.49	2.15	1.89
California	2.63	2.25	2.06
New York	2.45	2.12	2.06
Texas	2.65	2.29	2.03
Florida	2.67	2.26	2.02
Pennsylvania	3.13	2.69	2.35
Minnesota	2.62	2.24	2.00
Puerto Rico	13.86	11.77	11.53

Sector Performance

	Spread Performance			
	OAS	1w % Δ	1m % Δ	1y % Δ
Basic Materials	104	-2.0	4.2	-26.62
Communications	124	-1.8	-0.1	-21.56
Cons. Discretionary	86	-2.2	4.2	-22.77
Cons. Staples	86	-1.1	6.1	-18.55
Energy	111	-2.2	7.7	-20.10
Financials	69	-3.0	5.5	-0.25
Health Care	79	-1.0	-0.1	-27.26
Industrials	74	-1.4	4.5	-19.80
Technology	71	-3.9	3.5	-25.81
Utilities	88	-0.6	2.5	-24.94

UNITED STATES	10-Year Yield Forecasts (%)					
	1Q2018	2Q2018	3Q2018	4Q18	1Q19	2Q19
Survey Month: February						
RBC Capital Markets	2.80	3.00	3.15	3.30	3.45	3.60
Bloomberg Median	2.75	2.85	2.95	3.00	3.10	3.22
Bloomberg 1-Month Prior	2.57	2.70	2.80	2.90	3.00	3.10

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	55.2	46.9	52.5	62.6
CDX High Yield	191bps	332.3	296.4	317.1	316.4

Portfolio Advisory Group – U.S. Fixed Income Strategies

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