



# Daily Market View

Friday, June 23, 2017

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.72	2.72
10-year UST	2.15	2.15
5-year UST	1.75	1.76
2-year UST	1.34	1.34
6-Mo UST	1.10	1.10
3-Mo UST	0.96	0.95
10-year TIPS	0.43	0.45
10-year Corp	3.14	3.14
10-yr AAA Muni	1.84	1.84
3M LIBOR	1.29	1.29
Fed Funds	1.25	1.25
Prime Rate	4.25	4.25
CPI (YoY)	1.90	2.00
NASDAQ*	6,237	6,237
DJIA*	21,397	21,410
S&P 500*	2,435	2,436
Oil	\$42.86	\$42.74
Gold	\$1,256.40	\$1,247.60
Copper	\$263.70	\$259.90
Yen / US Dollar	¥111.24	¥111.33
Euro / \$US	€ 1.1177	€ 1.1152

**Link: [Bloomberg Economic Calendar](#)**

## Rates

Treasuries are set to close a mild trading week mostly flat. The dollar is set to finish the week slightly higher as rate hike probabilities slowly inched up from last week, although a September rate hike still looks unlikely, with probabilities sitting at just 22%. The swaps market and Fed Funds futures market are both aligned, pricing in a year-end Fed Funds rate of 1.275%, which is just barely within the implied target range should the Fed decide to raise rates one more time this year.

We have also seen rate hike probabilities slowly creep up this week in the U.K., where inflation of 2.9% y/y is pushing 4 year highs, but growth has begun to show signs of slowing. Last week the BoE decided to keep rates steady at 0.25%, but dissenting voices have been on the rise, including MPC member Kristin Forbes, who said that the U.K.'s economy is 'overstimulated' and the BoE is 'behind the curve.' Whereas the decision would be simple if the economy was driven mostly by demand side inflation pressures and strong consumer spending, the rise in inflation is partly attributed to y/y comps that are impacted by the weaker pound following the Brexit vote. On a real basis, average wages in the U.K. (a 3m average) are negative (-0.6%), as inflation has outpaced the rate of wage growth, creating concerns that weaker consumer purchasing power could lead to muted economic growth. The BoE is left with a balancing act, and will need to weigh the long-term impacts of letting inflation persistently overshoot its 2% target against the impact of removing accommodation in a time with significant economic uncertainty.

## Credit

The June edition of the Credit Market Insight is [here](#). In this month's edition we upgrade our outlook for A-rated corporates to Neutral. Over the last few months, we have continued to move up the credit spectrum as the yield advantage of riskier credits dissipates. And while the continued drive lower in credit spreads can be partially attributed to rising equity prices and strong economic fundamentals, it is also a product of investors reaching for yield, and in our view, the risk/reward trade-off doesn't favor taking on additional credit risk. The yield on A-rated credits is near the top end of its 5Y average, while yields on BB credits are near cycle lows – flattening the credit curve as show below. In our credit ranking scale, the last standing overweight category remains BBB, which still offers the most attractive mix of interest rate risk and credit risk, but that may be short-lived as yields continue to fall.

## Municipals

Pennsylvania is once again facing delays in passage of a budget, which like last year, could leave school credits in jeopardy of receiving much needed funding. The budget being circulated has an additional \$100M of basic education funding which could now be in jeopardy absent passage of a budget.

Muni bond funds reversed course in the lead up to July, another large reinvestment month. Investors pulled \$891M from muni funds the largest outflows since the first week of January, when investors pulled \$912M.

\*Previous Day

### Client Friendly Publications

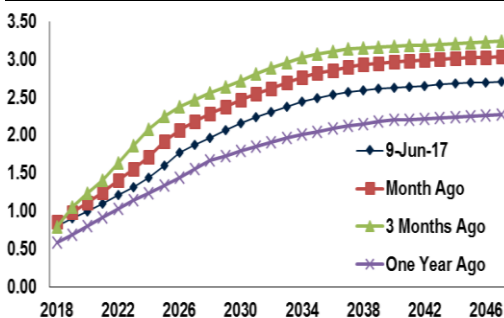
**Municipal Market Insight** [June 2017](#)

**Credit Market Insight** [June 2017](#)


**Global Insight Weekly** [June 15, 2017](#)

**Global Insight Monthly** [June 2017](#)

### Municipal AAA GO Yield Curve



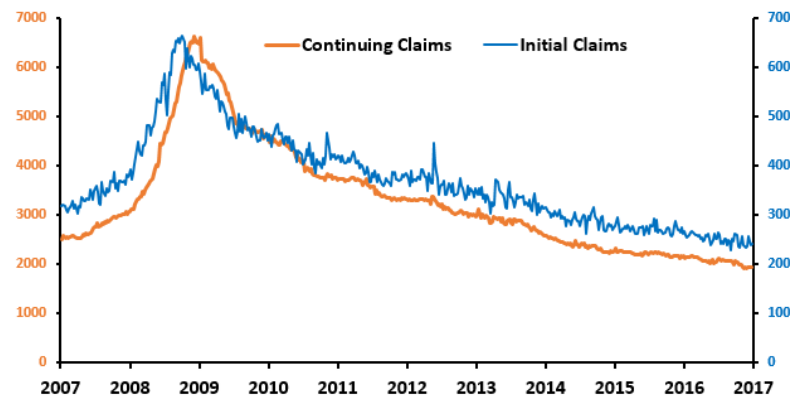
Source: RBC Wealth Management, MMD

 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
<b>Markit US Manufacturing PMI</b>	June P	53.0	-	52.7	While not as widely followed as ISM data, Markit PMI is expected to show a solid clip of expansion in both the manufacturing and services sector of the economy.
<b>Markit US Services PMI</b>	June P	53.5	-	53.6	
<b>New Home Sales m/m</b>	May	3.7%	-	-11.4%	New home sales are expected to rebound from the 11.4% plung in April, which was partially a result of seasonal adjustments.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
<b>Initial Jobless Claims</b>	June 17	240k	<b>241k</b>	237k	<p><b>Jobless Claims Continue to Show Labor Market Strength</b></p> <p>Another week, same story: jobless claims continue to remain near multi-decade lows as the current labor market environment proves it is costly and challenging to train and hire new workers due to structural unemployment. This week's jobless claims release coincides with the survey week for June's non-farm payrolls release, and the data implies another solid report, with the unemployment rate that will likely stay put at its current level of 4.3%.</p>
<b>Continuing Claims</b>	June 10	1,928k	<b>1,944k</b>	1,935k	
<b>Leading Index</b>	May	0.3%	<b>0.3%</b>	0.3%	
<b>Kansas City Fed Manufacturing Index</b>	June	9	<b>11</b>	8	
<b>FHFA House Price Index m/m</b>	April	0.5%	<b>0.7%</b>	0.6%	
<b>Consumer Comfort</b>	June 18	-	<b>49.4</b>	50	



Source: RBC Wealth Management, Bloomberg

The lack of available supply of homes for sale has continued to benefit existing homeowners, pushing prices higher by 0.7% in the month of April, and 5.7% higher on a year-over-year basis. However, the lack of supply is beginning to weigh on selling activity, with housing data from new and existing home sales, along with building permits showing signs of slowing after a strong start to the year.

**RBC Capital Markets – North American Morning Comment**

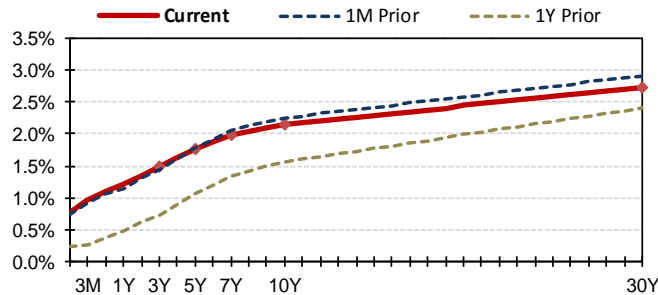
**US: New homes sales, some Fed speak cap a light week**

It has been a rather quiet week on the economic front in the US and that continues today with the preliminary Markit PMI readings for June and May new home sales. Our US team sees a good-sized increase to 615K (consensus 590K) after it fell sharply to 569K in April. There are three Fed speakers today, though the noted low dot St. Louis Fed Bullard is the lone one to touch on the monetary policy outlook in prepared remarks – Cleveland Fed President Mester and Governor Powell are the other Fed speakers on tap. Next week does see a pick-up in event risk, with preliminary durable and capital goods (Monday) and personal income & spending (Friday). There are several Fed speakers next week though Chair Yellen and Vice-Chair Fischer are not among them – remarks on Monday from San Francisco Fed President Williams are likely to be the most closely followed. As well, there are 2y, 5y and 7y UST auctions next week (Monday through Wednesday).



	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	2.27%	2.10%	1.63%	1.40%	1.26%	-	1.03%	0.95%	34.9%
6M	2.41	2.20	1.70	1.47	1.31	-	1.09	1.10	40.4%
1Y	2.69	2.41	1.85	1.60	1.42	0.76%	1.17	1.21	44.3%
2Y	3.40	2.92	2.13	1.85	1.66	0.90	1.34	1.34	49.2%
3Y	3.93	3.36	2.38	2.07	1.88	1.01	1.53	1.48	54.2%
4Y	4.36	3.73	2.59	2.25	2.06	1.12	1.52	1.62	59.3%
5Y	4.71	4.07	2.80	2.42	2.25	1.24	1.70	1.76	64.4%
7Y	5.28	4.67	3.20	2.75	2.43	1.48	2.08	1.85	68.1%
8Y	5.49	4.90	3.35	2.87	2.59	1.61	-	1.95	71.7%
9Y	5.68	5.09	3.48	2.98	2.73	1.74	-	2.05	75.3%
10Y	5.88	5.28	3.62	3.10	2.85	1.84	2.53	2.15	79.0%
15Y	6.69	6.05	4.16	3.63	2.97	2.31	-	2.29	84.2%
20Y	7.03	6.44	4.39	3.86	3.39	2.56	2.66	2.44	89.5%
25Y	7.08	6.47	4.38	3.87	3.63	2.65	2.90	2.58	94.7%
30Y	7.05	6.47	4.32	3.84	3.73	2.70	-	2.72	100.0%

Treasury Yield Curve

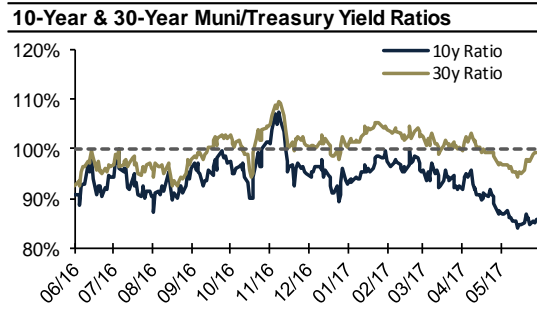
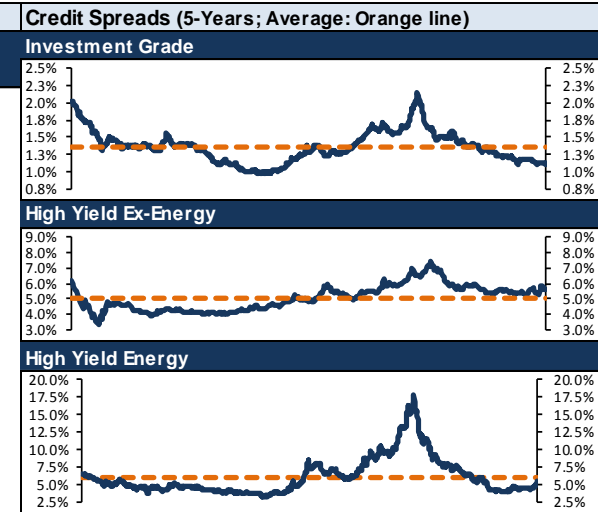


3-Month UST Curve Spread Trends

2s - 5s	Now 44 Avg 54
2s - 10s	Now 83 Avg 100
5s - 30s	Now 99 Avg 110
7s - 10s	Now 17 Avg 19
10s - 30s	Now 60 Avg 64

Global Sovereign 10Y Yields

	Current	-1m	-6m
USA	2.15	2.28	2.54
Canada	1.47	1.51	1.79
Brazil	4.76	4.90	5.54
Mexico	3.60	3.60	4.27
UK	1.02	1.08	1.34
France	0.60	0.84	0.69
Germany	0.25	0.41	0.22
Italy	1.91	2.11	1.82
Spain	1.37	1.60	1.37
Portugal	2.88	3.15	3.73
Greece	5.38	5.72	7.24
Japan	0.05	0.04	0.05
Australia	2.37	2.44	2.87
Hong Kong	1.18	1.28	2.05
China	3.54	3.66	3.17



GO Municipal Benchmark 10y Yields (%)

	Current	-1M	-6M
Composite	1.84	2.00	2.43
California	2.04	2.21	2.71
New York	2.10	2.11	2.48
Texas	1.99	2.15	2.63
Florida	2.00	2.09	2.62
Pennsylvania	2.34	2.53	3.08
Minnesota	1.94	2.07	2.53
Puerto Rico	13.86	11.77	11.53

Corporate Bonds Spread Performance

	Spread Performance			Total Return Data (%)			
	OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Treasury Index	-	-	-	2.52	0.81	3.15	(0.56)
Investment Grade	115	0.2	-1.2	4.36	1.23	5.23	3.84
AA	70	-0.5	-1.1	3.71	1.21	4.52	1.76
A	92	-0.7	-3.3	4.07	1.31	4.95	2.82
BBB	145	0.8	-0.4	4.78	1.16	5.65	5.29
Barclays US HY Index	378	4.6	4.2	4.59	0.04	4.84	11.91
S&P Pref. Stock Index	-	-	-	4.89	0.28		(1.41)
Bank Loans (BKLN)	-	-	-	0.44	-0.55	0.57	4.49

Sector Performance Spread Performance

	Avg Maturity (yrs)	Spread Performance			Total Return Data (%)			
		OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Basic Materials	12.2	143	0.3	-1.8	6.28	1.52	7.14	7.71
Communications	13.8	149	0.2	-1.7	5.08	1.84	6.15	3.78
Cons. Discretionary	10.7	116	-0.8	-3.3	4.02	1.22	4.80	2.80
Cons. Staples	11.4	116	-0.5	-2.9	4.09	1.46	5.03	1.82
Energy	11.6	162	5.1	7.6	4.14	0.12	5.04	7.41
Financials	7.7	107	-1.1	-2.2	3.77	0.88	4.44	3.59
Health Care	12.2	101	-1.1	-4.3	5.11	1.79	6.10	3.25
Industrials	12.9	92	-0.4	-2.5	4.44	1.55	5.39	3.00
Technology	11.0	86	0.4	-1.8	4.34	1.35	5.35	3.43
Utilities	14.6	114	-0.8	-2.8	4.88	1.98	5.93	2.99

UNITED STATES 10-Year Yield Forecasts (%)

Survey Month: June	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
RBC Capital Markets (June)	2.30	2.65	3.00	3.15	3.40	3.50
Bloomberg Median	2.47	2.62	2.80	2.90	3.02	3.20
Bloomberg 1-Month Prior	2.50	2.67	2.80	2.94	3.05	3.20

CDS Price & Spread Levels

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	60.9	61.9	68.0	76.2
CDX High Yield	191bps	339.2	327.1	331.7	421.6

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## Portfolio Advisory Group – U.S. Fixed Income Strategies

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