Daily Market View

Monday, June 18, 2018

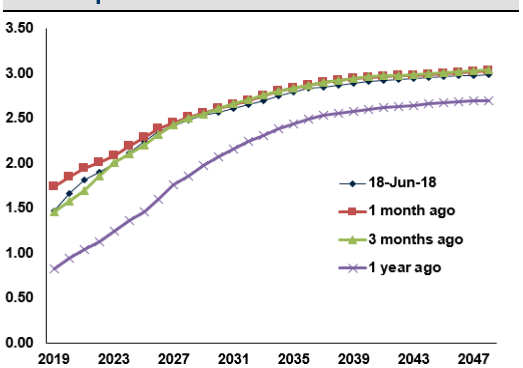
Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	3.03	3.05
10-year UST	2.90	2.92
5-year UST	2.78	2.80
2-year UST	2.54	2.55
6-Mo UST	2.07	2.07
3-Mo UST	1.93	1.92
10-year TIPS	0.78	0.80
10-year Corp	4.30	4.30
10-yr AAA Muni	2.48	2.49
3M LIBOR	2.33	2.33
Fed Funds	2.00	2.00
Prime Rate	5.00	5.00
CPI (YoY)	2.80	2.20
NASDAQ*	7,746	7,746
DJIA*	25,090	25,175
S&P 500*	2,780	2,782
Oil	$65.00	$65.06
Gold	$1,279.20	$1,274.60
Copper	$312.05	$314.45
Yen / US Dollar	¥110.45	¥110.66
Euro / $US	€ 1.1614	€ 1.1610
Link: Bloomberg Economic Calendar		

**Previous Day*

Client Friendly Publications	
Municipal Market Insight	June 2018
Credit Market Insight	May 2018
Global Insight Weekly	June 14, 2018
Global Insight Monthly	June 2018

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

Rates

Treasuries are little changed this morning ahead of a very light week of economic data, though the ramifications of trade tariffs between China and the U.S. will likely reverberate through the market throughout the week. On Friday of last week, the 10Y yield continued its rally following the release of the detailed list of Chinese products that would be subject to U.S. tariffs. This continues the trend of rate moves in the U.S. based on the growth-slowing implications of protectionist trade policies rather than the potentially inflationary impact on consumer prices. The market however, does not foresee trade tariffs throwing the Fed off of its course, at least through 2018, with an 86% implied probability of a September hike and a 57% chance of another hike in December.

While the data calendar gives the market little to trade on this week, the schedule of central bank speakers is a busy one. From the Fed, Jerome Powell headlines, as well as outgoing NY Chief Bill Dudley, Atlanta's Raphael Bostic, and San Francisco's John Williams. From foreign central banks, Mario Draghi will follow up last week's press policy announcement of the end of its QE program, and Japan's Kuroda will also take the stage.

Municipal

Munis gained 2bps Friday after trading mixed throughout the week. Issuers will be offering up $7.0B in offerings, on par with last week's $6.7B.

Alaska Governor Bill Walker signed the state's budget bill allowing the state to draw on the Alaska Permanent Fund to cover operating expenses. This marks the first time the state will draw on the fund. The governor's budget calls for $6.7B of general fund spending and $1.3B of capital spending.

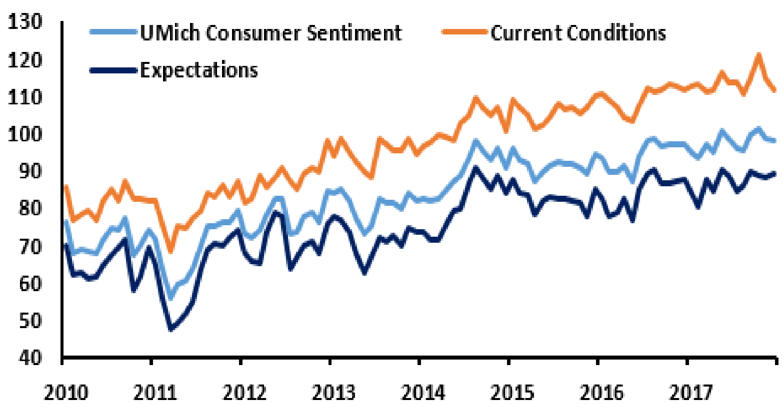
Wayne County, MI, home to Detroit, once on the brink of bankruptcy, was upgraded two notches by Moody's last week. The county is now rated above investment grade by the three major rating agencies.

Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
NAHB Housing Market Index	June	70	-	70	Despite the rise in mortgage rates experienced this year, homebuilder confidence is holding up as an acute inventory shortage and improving household wage metrics continue to lend support for housing demand going forward.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior
Capacity Utilization	May	78.1%	**77.9%**	78.0%
Industrial Production m/m	May	0.2%	**-0.1%**	0.7%
U. of Mich. Sentiment	June P	98.5	**99.3**	98.0



Source: RBC Wealth Management, Bloomberg

Our Thoughts

Consumer Sentiment Higher On Robust Personal Finances

The University of Michigan's consumer sentiment index surprised to the upside on the preliminary reading for June as more favorable personal finance conditions outweighed fears of a trade war. However, the newly enacted tariffs and expectations of further retaliation from U.S. trading partners lifted consumer's views on inflation to a 3-year high. Looking at the chart, consumer's sentiment about their current conditions (**orange line**) fell as the economic outlook was much more negative due to the $50 billion in tariffs on Chinese imports. Even so, sentiment remains near the high for this expansion, as a tight labor market and historically low unemployment levels continue to buoy the U.S. economy. That should help drive continued gains in consumer spending, the biggest part of the U.S. economy, which we will continue to watch going forward.

RBC Capital Markets – Weekly Dashboard

No bluesin' for Jay P

When you hear superlatives like "strong" and "great" to describe the economic backdrop (by a Fed chair no less), if that doesn't give you a sense for where someone's head is at, then you may never be convinced in the narrative they are pushing. Chairman Jay Powell used the word "great" to specifically describe the backdrop twice and he used "strong" about a dozen times. Any doubts about their conviction on the path they see this hiking cycle taking should be long extinguished. But given our client chats over the last 24-hours doubts remain.

As we hope our long time readers know, we are not wed to our forecasts. If we think things are deteriorating we will gladly change our call for 6 more hikes between now and the end of next year. But if you doubt the Fed's will or ability to get to around 3.5% on funds by the end of 2019, then let's hear good/realistic/plausible reasons for why they won't get there. Thus far, we have not heard much that we would define as compelling.

And as we hope is appreciated, this is not some blind march toward higher rates. And certainly this is not about the completely absurd reason that is still uttered by far too many people that they need to raise rates so they have "room" to cut when the next downturn comes. Powell was asked about that yesterday and he simply said: "*It does not play a part in what I'm doing*". No, they are lifting rates because higher rates are warranted. Policy remains accommodative. And it is accommodative at a point when the Fed Chair is using words like "great" to describe the backdrop. This accommodative stance is true in an r* construct and it is true if you look at something like our Labor Tightness Index relative to the level of funds today (a chart we have showed many times in the past which perhaps we will toss into the Daily Deck next week).

RBC Wealth Management

Fixed Income Dashboard

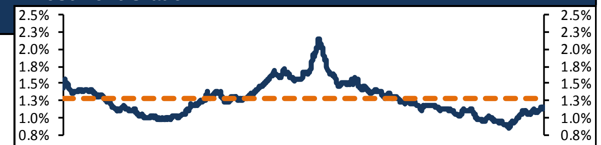
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	Captured
3M	3.89%	3.50%	2.72%	2.49%	2.37%	-	1.88%	1.92%	63.4%
6M	4.03	3.63	2.81	2.58	2.44	-	1.98	2.06	68.0%
1Y	4.30	3.88	3.00	2.74	2.57	1.48%	2.12	2.31	76.0%
2Y	4.83	4.37	3.31	3.03	2.85	1.65	2.55	2.54	83.8%
3Y	5.24	4.75	3.54	3.23	3.03	1.79	2.71	2.66	87.8%
4Y	5.58	5.04	3.71	3.35	3.16	1.90	2.83	2.72	89.7%
5Y	5.89	5.30	3.88	3.47	3.29	2.00	2.94	2.78	91.7%
7Y	6.42	5.77	4.19	3.68	3.41	2.22	3.20	2.81	92.7%
8Y	6.62	5.93	4.29	3.77	3.51	2.32	-	2.84	93.7%
9Y	6.79	6.08	4.39	3.85	3.60	2.42	-	2.87	94.7%
10Y	6.96	6.22	4.48	3.93	3.68	2.49	3.26	2.90	95.7%
15Y	7.75	6.75	4.76	4.21	3.74	2.76	-	2.93	96.8%
20Y	8.07	6.89	4.85	4.28	3.93	2.91	3.21	2.97	97.9%
25Y	8.20	6.71	4.82	4.26	4.03	2.99	3.39	3.00	98.9%
30Y	8.11	6.72	4.80	4.24	4.07	3.04	-	3.03	100.0%

Global Sovereign 10Y Yields

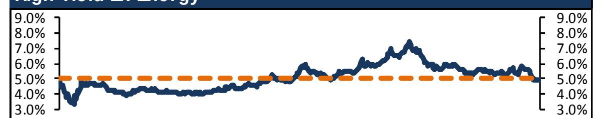
	Current	-1m	-6m
USA	2.90	3.06	2.40
Canada	2.19	2.48	1.86
Brazil	6.10	5.58	4.53
Mexico	4.62	4.64	3.59
UK	1.31	1.50	1.15
France	0.73	0.83	0.63
Germany	0.39	0.58	0.31
Italy	2.57	2.22	1.80
Spain	1.26	1.43	1.43
Portugal	1.76	1.86	1.76
Greece	4.37	4.50	3.92
Japan	0.03	0.06	0.04
Australia	2.67	2.90	2.53
Hong Kong	2.17	2.33	1.77
China	3.61	3.70	3.89

Credit Spreads (5-Years; Average: Orange line)

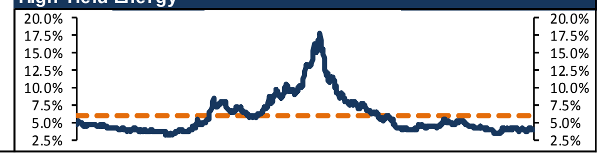
Investment Grade



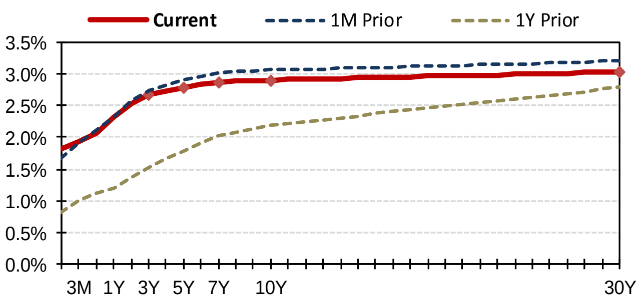
High Yield Ex-Energy



High Yield Energy



Treasury Yield Curve



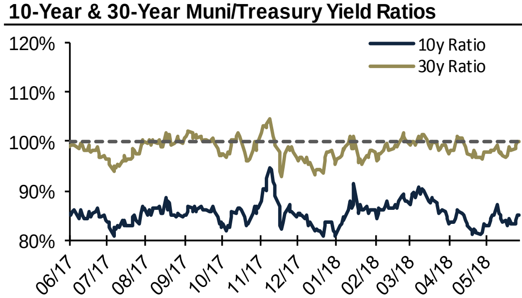
3-Month UST Curve Spread Trends

	Now	Avg
2s - 5s	Now 27	Avg 31
2s - 10s	Now 42	Avg 48
5s - 30s	Now 28	Avg 35
7s - 10s	)9999998	Avg 5
10s - 30s	Now 13	Avg 18

Corporate Bonds — Spread Performance

Corporate Bonds	OAS	1w % Δ	1m % Δ	1y % Δ
Treasury Index	-	-	-	
Investment Grade	104	-0.2	3.0	-7.67
AA	65	0.0	8.3	-4.41
A	95	0.0	6.7	5.56
BBB	144	0.0	5.9	2.86
Barclays US HY Index	332	-1.8	-1.2	-9.78
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**	**2.50**	**2.02**
California	2.52	2.56	2.13
New York	2.49	2.50	2.01
Texas	2.66	2.66	2.13
Florida	2.62	2.60	2.19
Pennsylvania	3.15	3.07	2.52
Minnesota	2.59	2.63	2.09
Puerto Rico	13.86	11.77	11.53

Sector Performance — Spread Performance

Sector Performance	OAS	1w % Δ	1m % Δ	1y % Δ
Basic Materials	133	0.1	4.7	-8.82
Communications	152	0.0	5.5	0.4
Cons. Discretionary	100	0.0	2.9	-10.43
Cons. Staples	100	-0.5	1.3	-3.07
Energy	129	-0.3	4.2	-12.58
Financials	87	-0.4	2.6	-0.04
Health Care	98	0.0	0.4	-4.85
Industrials	89	-1.1	2.5	-3.39
Technology	79	-0.1	1.4	-15.23
Utilities	102	0.4	1.9	-13.48

10-Year Yield Forecasts (%)

UNITED STATES *Survey Month: June*	2Q2018	3Q2018	4Q18	1Q19	2Q19	3Q19
RBC Capital Markets	**3.00**	**3.15**	**3.30**	**3.45**	**3.60**	**3.70**
Bloomberg Median	3.00	3.10	3.20	3.29	3.30	3.40
Bloomberg 1-Month Prior	*3.00*	*3.10*	*3.19*	*3.25*	*3.30*	*3.42*

CDS Price & Spread Levels

	Pre-Crisis Low	Current	-1M	-3M	-1Y
CDX Investment Grade	*30bps*	62.0	61.9	54.9	59.9
CDX High Yield	*191bps*	336.3	341.1	333.9	327.8

Portfolio Advisory Group – U.S. Fixed Income Strategies