



Daily Market View

Tuesday, September 26, 2017

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.76	2.76
10-year UST	2.22	2.22
5-year UST	1.84	1.84
2-year UST	1.43	1.43
6-Mo UST	1.18	1.18
3-Mo UST	1.05	1.01
10-year TIPS	0.38	0.38
10-year Corp	3.13	3.17
10-yr AAA Muni	1.93	1.93
3M LIBOR	1.33	1.33
Fed Funds	1.25	1.25
Prime Rate	4.25	4.25
CPI (YoY)	1.90	2.00
NASDAQ*	6,371	6,371
DJIA*	22,296	22,350
S&P 500*	2,497	2,502
Oil	\$52.15	\$52.22
Gold	\$1,300.80	\$1,307.10
Copper	\$291.60	\$291.75
Yen / US Dollar	¥111.95	¥111.73
Euro / \$US	€ 1.1788	€ 1.1848

Link: [Bloomberg Economic Calendar](#)

Rates

Treasuries are flat on the morning as yesterday's North Korea concerns begin to abate. The 10Y fell 3 bps yesterday, but still remains 10 bps higher on the month despite dipping as low as 2.01%.

Later this morning Fed Chair Janet Yellen is set to speak on inflation and monetary policy in Cleveland, which could have implications for the longer-end of the yield curve depending on her assessment of recent low inflation. Yellen once again proved to be leaning slightly hawkish at last week's FOMC meeting, helping to send rate hike probabilities for December as high as 67%. But most Fed officials have been advocating for a 'wait and see' approach to predicting the December meeting outcome, given we still have 3 months left until a decision needs to be made, with inflation being the determining factor.

Credit

The September Edition of the client-friendly Credit Market Insight is [here](#). In this month's issue we highlight our strategies for fixed income investors as we head into fall after a summer of falling yields. As treasury yields fall deeper into year-to-date lows, investment grade credits have actually outperformed since March, when election euphoria began to wear off, and thus frames our view that investors are better suited opting for quality credit over quantity of yield, as we see little likelihood that spreads continue to tighten further beyond near-cycle low levels. In our view, there remain more catalysts that are likely to drive yields lower than higher, and thus would rather be positioned to take on slightly more duration risk than credit risk at this point in the credit cycle.

Municipals

Munis lagged Treasuries on Monday and were unable to gain their footing amid a robust issuance calendar, ending the day unchanged.

Illinois will test the market with its biggest deal in 14 years when it offers \$4.5B of GO's this month and another \$1.5B of GO's in October. The state intends to use the proceeds to pay down its \$15B backlog of unpaid bills.

Moody's wrote that Hurricane Maria's impact on Puerto Rico is a credit negative for both Assured Guaranty and National Public Finance. In the event a "higher-than-expected loss severity results from debt restructuring" both insurers could experience significant capital deterioration.

*Previous Day

Client Friendly Publications

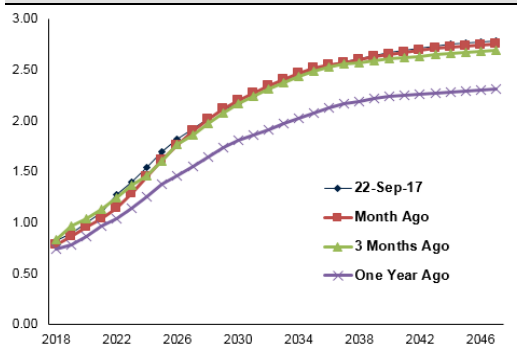
Municipal Market Insight [September 2017](#)

Credit Market Insight [September 2017](#)


Global Insight Weekly [September 21, 2017](#)

Global Insight Monthly [September 2017](#)

Municipal AAA GO Yield Curve



Source: RBC Wealth Management, MMD

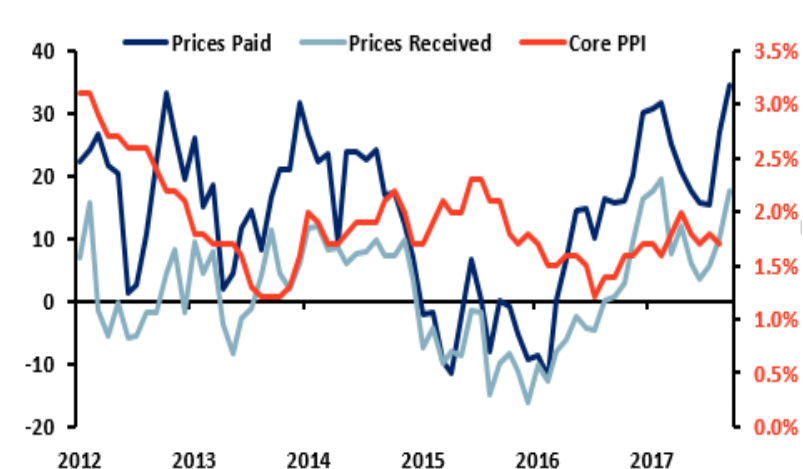
 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
New Home Sales m/m	Aug.	2.5%	-	-9.4%	Expectations are for a small rebound in new home sales activity, but a decline in the activity in the south due to Hurricane Harvey might be enough to slow the pace back into contraction.
Conference Board Consumer Confidence	Sep.	120.0	-	122.9	Consumer confidence is expected to trend lower with Harvey and Irma distorting the headline, but Hurricane's have not had as great of an influence on consumer attitudes than they have in the past.
Richmond Fed Manufacturing Index	Sep.	13	-	14	We will be watching the prices paid and received components of the index to get a first lense into potential producer price inflation coming down that pipeline.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Chicago Fed National Activity Index	Aug.	-0.25	-0.31	-0.01	Dallas Fed Prices Paid & Received Accelerate The headline reading of the Dallas Fed Manufacturing Index surprised to the upside, led by a strong increase in both the prices paid and prices received components. There is likely some distortion in the reading due fuel prices rising sharply ahead of Hurricane Harvey, but sustained monthly readings suggest an increase to the producer price index. With the economy more or less at full employment, the debate between members of the FOMC now surrounds the inflation outlook, which has continued to undershoot estimates for the vast majority of the current recovery. The Chicago Fed National Activity Index missed expectations, led by a strong downward move in the production and income estimates. Yet again, this data is likely skewed due to the Hurricanes, with initial jobless claims rising to near 300k two weeks ago when this survey was taken – However, there is nothing to worry about here as the effects are transitory and will work themselves out over the coming months.
Dallas Fed Manufacturing Index	Sep.	11.5	21.3	17.0	

Dallas Fed Prices Paid & Received



Source: RBC Wealth Management, Bloomberg

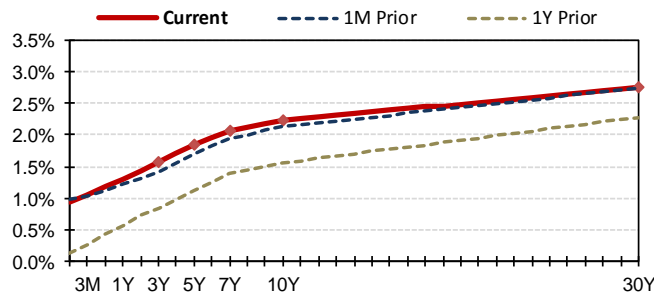
RBC Capital Markets – The Daily Deck

Following an extensive diatribe on inflation—where he lamented not only the fact that the Fed continues to miss on the 2% target but that inflation expectations are too low—Evans still came to the conclusion that the Fed's base case for rate hikes (as put forth in the summary of economic projections) is a "comfortable" forecast! This matters because although his overall speech on inflation rang some of his classically ultradovish tones, **his case was not strong enough to justify deviating from the Fed's median forecast of one more hike this year**, three hikes in 2018 and two more in 2019—well north of market expectations...



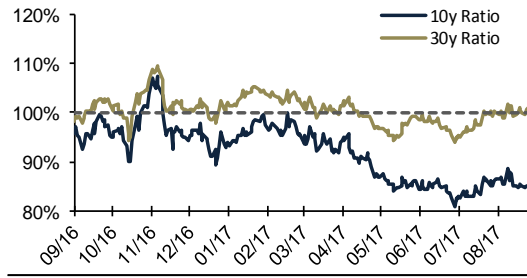
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	2.52%	2.26%	1.70%	1.46%	1.35%	-	0.99%	1.04%	37.7%
6M	2.66	2.37	1.77	1.52	1.40	-	1.12	1.17	42.5%
1Y	2.93	2.57	1.89	1.64	1.50	0.82%	1.28	1.29	46.6%
2Y	3.62	3.07	2.15	1.88	1.73	0.92	1.48	1.43	51.8%
3Y	4.14	3.49	2.39	2.10	1.93	1.04	1.57	1.56	56.6%
4Y	4.56	3.84	2.60	2.27	2.10	1.16	1.56	1.70	61.6%
5Y	4.91	4.16	2.81	2.45	2.28	1.29	1.74	1.84	66.7%
7Y	5.47	4.73	3.20	2.77	2.46	1.56	2.13	1.94	70.2%
8Y	5.70	4.94	3.36	2.90	2.61	1.70	-	2.03	73.6%
9Y	5.89	5.12	3.49	3.02	2.75	1.83	-	2.13	77.0%
10Y	6.09	5.31	3.63	3.14	2.88	1.93	2.62	2.22	80.5%
15Y	6.94	6.06	4.16	3.67	3.00	2.38	-	2.36	85.4%
20Y	7.32	6.44	4.37	3.87	3.41	2.63	2.71	2.49	90.2%
25Y	7.44	6.45	4.35	3.87	3.65	2.75	2.92	2.63	95.1%
30Y	7.43	6.44	4.29	3.85	3.74	2.82	-	2.76	100.0%

Treasury Yield Curve



3-Month UST Curve Spread Trends	
2s - 5s	Now 44, Avg 45
2s - 10s	Now 83, Avg 88
5s - 30s	Now 93, Avg 101
7s - 10s	Now 16, Avg 18
10s - 30s	Now 54, Avg 58

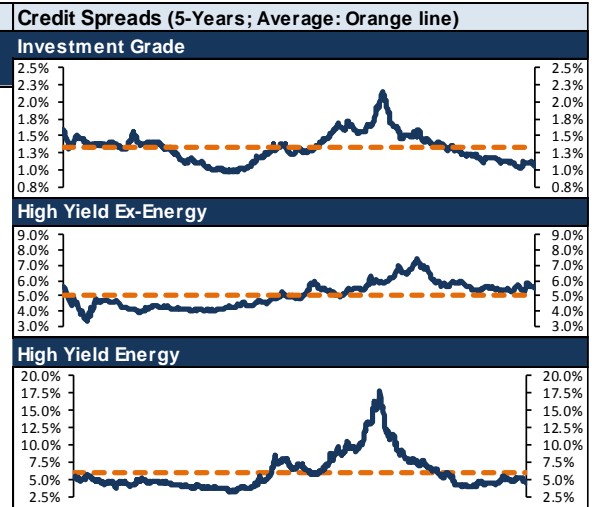
10-Year & 30-Year Muni/Treasury Yield Ratios



	GO Municipal Benchmark 10y Yields (%)		
	Current	-1M	-6M
Composite	1.93	1.87	2.30
California	2.10	2.03	2.56
New York	2.20	2.06	2.34
Texas	2.06	1.99	2.46
Florida	2.06	1.99	2.38
Pennsylvania	2.54	2.33	2.90
Minnesota	2.06	2.01	2.35
Puerto Rico	13.86	11.77	11.53

UNITED STATES	10-Year Yield Forecasts (%)					
	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q18
Survey Month: September						
RBC Capital Markets	2.25	2.65	2.85	3.00	3.20	3.40
Bloomberg Median	2.25	2.49	2.60	2.75	2.89	2.99
Bloomberg 1-Month Prior	2.40	2.60	2.70	2.85	2.95	3.08

	Global Sovereign 10Y Yields		
	Current	-1m	-6m
USA	2.22	2.17	2.41
Canada	2.09	1.87	1.64
Brazil	4.41	4.49	4.88
Mexico	3.46	3.49	3.69
UK	1.32	1.05	1.20
France	0.70	0.69	0.98
Germany	0.40	0.38	0.40
Italy	2.11	2.09	2.21
Spain	1.60	1.59	1.68
Portugal	2.38	2.84	4.11
Greece	5.50	5.49	7.31
Japan	0.02	0.01	0.06
Australia	2.77	2.64	2.75
Hong Kong	1.47	1.54	1.64
China	3.61	3.67	3.23



Corporate Bonds	Spread Performance			Total Return Data (%)			
	OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Treasury Index	-	-	-	2.79	(0.10)	2.12	(1.07)
Investment Grade	108	-1.8	-4.2	5.50	0.35	4.29	2.50
AA	64	-2.9	-4.9	4.61	0.22	3.71	1.20
A	85	-2.4	-4.0	5.09	0.25	4.09	1.79
BBB	137	-1.4	-4.3	6.09	0.47	4.61	3.46
Barclays US HY Index	357	-1.0	-7.9	6.79	1.03	4.90	9.15
S&P Pref. Stock Index	-	-	-	4.37	(0.07)		(1.93)
Bank Loans (BKLN)	-	-	-	1.28	-0.04	1.10	3.10

Sector Performance	Avg Maturity (yrs)	Spread Performance			Total Return Data (%)			
		OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Basic Materials	12.6	134	-0.7	-2.4	8.00	0.50	5.06	5.50
Communications	14.3	151	-1.5	-3.3	5.74	0.69	4.88	1.24
Cons. Discretionary	10.7	109	-1.7	-4.1	5.03	0.36	3.63	1.59
Cons. Staples	11.4	109	-2.4	-4.7	4.92	0.31	4.10	0.53
Energy	11.7	148	-1.6	-5.8	6.19	0.69	4.87	5.65
Financials	7.6	98	-1.7	-3.2	4.89	0.18	3.66	2.75
Health Care	12.2	96	-2.8	-6.7	6.22	0.52	4.98	2.02
Industrials	12.5	89	-2.2	-3.8	5.10	0.24	4.11	1.46
Technology	10.8	82	-3.0	-4.4	5.24	0.31	4.20	2.25
Utilities	14.9	107	-1.5	-2.1	6.24	0.10	5.07	1.86

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	59.1	59.5	59.6	79.1
CDX High Yield	191bps	327.0	333.3	333.8	396.1

Portfolio Advisory Group – U.S. Fixed Income Strategies

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