



Daily Market View

Tuesday, November 21, 2017

Portfolio Advisory Group – U.S. Fixed Income

Market Snapshot	7:30am CDT	Prior
30-year UST	2.76	2.78
10-year UST	2.36	2.37
5-year UST	2.10	2.09
2-year UST	1.77	1.75
6-Mo UST	1.44	1.42
3-Mo UST	1.29	1.26
10-year TIPS	0.50	0.51
10-year Corp	3.28	3.27
10-yr AAA Muni	2.04	2.03
3M LIBOR	1.44	1.44
Fed Funds	1.25	1.25
Prime Rate	4.25	4.25
CPI (YoY)	2.00	2.00
NASDAQ*	6,791	6,791
DJIA*	23,430	23,358
S&P 500*	2,582	2,579
Oil	\$56.54	\$56.09
Gold	\$1,276.20	\$1,275.30
Copper	\$311.45	\$309.30
Yen / US Dollar	¥112.44	¥112.62
Euro / \$US	€ 1.1721	€ 1.1733

Link: [Bloomberg Economic Calendar](#)

Rates

The yield curve continues to grind flatter with the 2s/10s spread now at just 59 bps. The long-end of the yield curve rallied across the sovereign bond universe as the ECB said that it would make only minor gradual changes to its QE program rather than any large singular change in policy in 2018. The short-end of the curve drifted higher yesterday and continues to do so this morning, as Fed Chair Janet Yellen announced that she will leave the Fed once the new nominee Jerome Powell is confirmed in the senate. Yellen typically leans to the dovish side of the spectrum, and thus her departure leaves room for a more aggressive pace of rate hikes. Though, as we have said before, Trump is unlikely to swing the composition of the Fed towards the hawks given easy money policy is better for stocks, not to mention that low long-term yields effectively eliminates the option of rapidly raising rates.

Municipals

Tax-exempts were modestly weaker Monday as high grade municipal benchmark yields rose 1 to 2 basis points in spots in sympathy with Treasury market losses. Municipal trading activity was relatively light to kick off the holiday shortened week and a softer secondary bid was evident.

Connecticut is projecting a \$203 million deficit for the fiscal year ending June 30, less than a month after lawmakers adopted a budget, according to the state's Secretary of the Office of Policy and Management. The deficit is more than 1% of net general fund appropriations, triggering a deficit mitigation plan.

A report from Barclays Plc suggests state and local governments could move as much as \$25 billion of municipal bond sales to this year from 2018 because of the Republicans tax plan.

*Previous Day

Client Friendly Publications

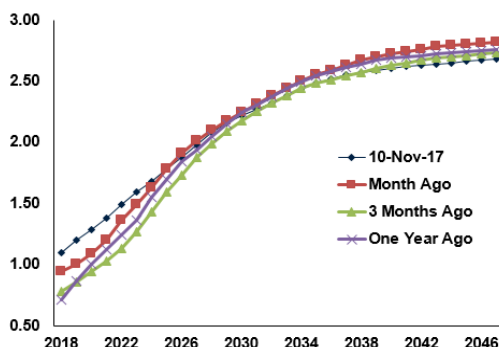
Municipal Market Insight [November 2017](#)

Credit Market Insight [October 2017](#)

Global Insight Weekly [November 16, 2017](#)

Global Insight Monthly [2018 Outlook](#)

Municipal AAA GO Yield Curve



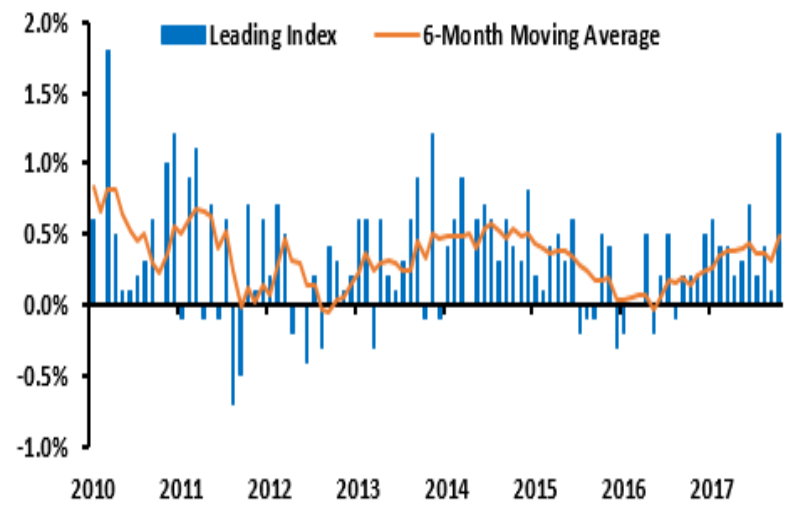
Source: RBC Wealth Management, MMD

 Key U.S. Economic Data Releases

Event	Period	Survey	Actual	Prior	Our Thoughts
Chicago Fed National Activity Index	Oct.	0.20	-	0.17	We wouldn't be surprised to see the Chicago Fed National Activity Index beat expectations following yesterday's release of the leading index – Both indexes have heavy weightings towards employment data which came in very strong in October following September's weakness.
Existing Home Sales m/m	Oct.	0.2%	-	0.7%	The release of existing home sales could be a wildcard due to pending home contracts that fell through as a result of hurricane related damages/disruptions.

Prior Session Highlights & Analysis

Event	Period	Survey	Actual	Prior	Our Thoughts
Leading Index	Oct.	0.7%	1.2%	-0.2%	<p>Leading Index Says All Systems Go</p> <p>The index of leading economic indicators, or leading index for short, is the Conference Board's attempt at creating a simple forward looking measure of what is ahead of the U.S. economy. The index is made up of 10 different indicators, 3 financial and 7 non-financial, that tend to precede changes in the economy and it has done a fairly respectable job of signaling the peaks and troughs of the economy. We will be keeping an eye on 2 components of the index that are most impactful to the headline number, M2 money supply growth and the yield curve spread, to get a sense of where the index, and thus the economy are headed. Currently, the yield curve is the only component that isn't signaling full expansionary economic growth, as the spread between the 2 and 10 year Treasury yield continues to narrow, and now sits at recovery low of just 59 basis points.</p>



Source: RBC Wealth Management, Bloomberg

RBC Capital Markets North American Morning Comment

US: Yellen speaks and Chicago Fed Activity Index ahead of FOMC Minutes tomorrow

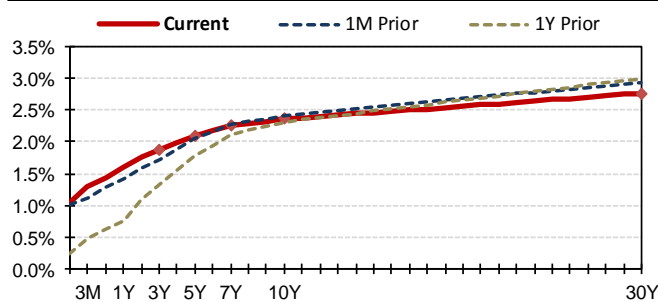
Markets are broadly higher overnight, with equity indices showing solid gains (Euro Stoxx +0.4%, Nikkei +0.7%) and Gilt and Bund yields lower. AUD was choppy overnight as dovishly interpreted RBA minutes were offset by more hawkish remarks from Governor Lowe, while we also got UK borrowing figures ahead of tomorrow's budget (see below). US equity futures are pointing to 0.2- 0.3% gains on the open, while the front WTI remains in the upper-end of the recent range at ~US\$56.50/bbl. The USD is little changed on a trade-weighted DXY basis (~94.1) and the UST curve continues to flatten (2s30s at ~100bp, 10y yield 1bp lower at ~2.35%). For 2s30s, this represents 35bp of flattening since October 26th.

Today's main event will be remarks from outgoing Fed Chair Janet Yellen at 6pm ET, speaking with former BoE Governor Mervyn King at NYU. This follows her announcement yesterday that she will step down from the Board of Governors – as was largely expected – when Jerome Powell becomes Chair in February. Data flow remains relatively light, with October Chicago Fed National Activity Index and existing home sales the lone releases.



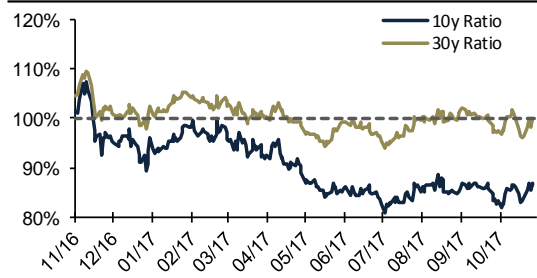
	High Yield Corp		Investment Grade Corp			Government Related			% of Curve Captured
	B	BB	BBB	A	AA	AAA Munis	Agencies	Treasury	
3M	2.93%	2.57%	1.83%	1.66%	1.55%	-	1.21%	1.29%	46.6%
6M	3.10	2.67	1.92	1.74	1.62	-	1.34	1.44	52.2%
1Y	3.41	2.87	2.09	1.88	1.75	1.17%	1.53	1.60	58.0%
2Y	4.10	3.32	2.38	2.14	2.01	1.25	1.80	1.76	63.9%
3Y	4.58	3.71	2.62	2.34	2.21	1.36	1.89	1.87	67.7%
4Y	4.94	4.03	2.80	2.49	2.36	1.47	1.84	1.98	71.9%
5Y	5.27	4.32	2.99	2.64	2.52	1.59	1.98	2.10	76.1%
7Y	5.84	4.86	3.34	2.92	2.67	1.79	2.33	2.16	78.4%
8Y	6.06	5.06	3.47	3.03	2.80	1.89	-	2.23	80.8%
9Y	6.27	5.22	3.60	3.13	2.92	1.99	-	2.29	83.1%
10Y	6.49	5.40	3.72	3.25	3.03	2.05	2.75	2.36	85.4%
15Y	7.45	6.09	4.18	3.70	3.13	2.42	-	2.46	89.0%
20Y	7.94	6.42	4.36	3.87	3.46	2.62	2.84	2.56	92.7%
25Y	8.34	6.33	4.34	3.87	3.64	2.72	2.88	2.66	96.3%
30Y	8.30	6.32	4.28	3.84	3.70	2.78	-	2.76	100.0%

Treasury Yield Curve



3-Month UST Curve Spread Trends	
2s - 5s	Now 36 Avg 41
2s - 10s	Now 65 Avg 80
5s - 30s	Now 73 Avg 92
7s - 10s	Now 12 Avg 16
10s - 30s	Now 44 Avg 54

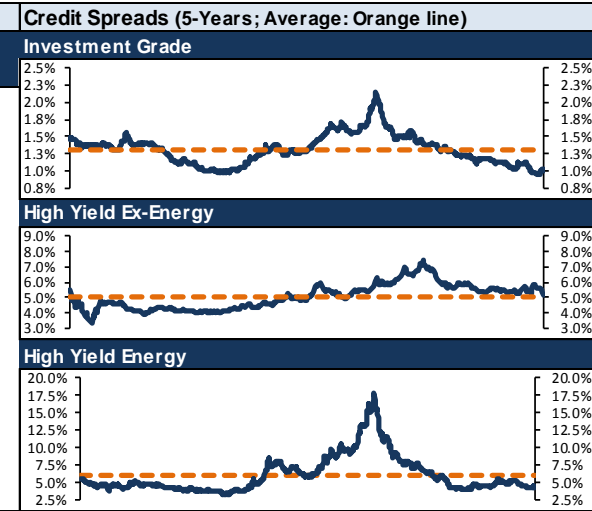
10-Year & 30-Year Muni/Treasury Yield Ratios



	GO Municipal Benchmark 10y Yields (%)		
	Current	-1M	-6M
Composite	2.05	1.97	2.02
California	2.19	2.10	2.22
New York	2.03	2.19	2.13
Texas	2.16	2.10	2.16
Florida	2.20	2.11	2.11
Pennsylvania	2.55	2.50	2.48
Minnesota	2.12	2.01	2.09
Puerto Rico	13.86	11.77	11.53

UNITED STATES	10-Year Yield Forecasts (%)					
	4Q2017	1Q2018	2Q2018	3Q2018	4Q18	1Q19
Survey Month: November						
RBC Capital Markets	2.65	2.85	3.00	3.20	3.40	
Bloomberg Median	2.44	2.60	2.72	2.85	2.95	3.04
Bloomberg 1-Month Prior	2.48	2.58	2.70	2.84	2.95	3.05

Global Sovereign 10Y Yields			
	Current	-1m	-6m
USA	2.36	2.39	2.24
Canada	1.93	2.03	1.47
Brazil	4.69	4.61	4.94
Mexico	3.55	3.60	3.55
UK	1.28	1.33	1.09
France	0.66	0.86	0.80
Germany	0.35	0.45	0.37
Italy	1.77	2.04	2.13
Spain	1.47	1.66	1.56
Portugal	1.89	2.29	3.17
Greece	5.19	5.50	5.62
Japan	0.02	0.07	0.04
Australia	2.54	2.78	2.48
Hong Kong	1.64	1.76	1.31
China	3.95	3.72	3.62



Corporate Bonds	Spread Performance			Total Return Data (%)			
	OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Treasury Index	-	-	-	2.22	0.21	0.48	2.00
Investment Grade	103	0.4	6.1	5.45	0.08	2.30	6.25
AA	61	0.7	11.0	4.42	0.03	1.91	4.90
A	80	0.3	5.9	5.02	0.15	2.23	5.64
BBB	132	0.5	5.8	6.09	0.03	2.45	7.12
Barclays US HY Index	358	-1.1	9.0	6.75	(0.73)	2.30	9.39
S&P Pref. Stock Index	-	-	-	3.53	(0.40)		2.87
Bank Loans (BKLN)	-	-	-	1.60	-0.33	0.78	3.05

Sector Performance	Avg Maturity (yrs)	Spread Performance			Total Return Data (%)			
		OAS	1w % Δ	1m % Δ	YTD	1-Month	6-Month	1-Year
Basic Materials	12.7	121	-0.2	1.0	8.84	0.55	4.01	9.92
Communications	14.0	150	1.1	8.8	5.40	(0.21)	2.18	6.40
Cons. Discretionary	10.8	104	0.3	8.0	5.04	0.07	2.22	5.57
Cons. Staples	11.3	104	-0.8	6.7	4.73	0.08	2.07	5.38
Energy	11.7	137	1.6	2.0	6.81	0.41	2.72	9.22
Financials	7.4	90	0.3	4.4	4.79	(0.04)	1.90	5.16
Health Care	12.1	99	-0.8	14.1	5.61	(0.26)	2.27	6.14
Industrials	12.4	84	1.6	4.8	5.09	0.41	2.17	5.87
Technology	10.7	82	-0.8	17.9	4.90	(0.28)	1.87	5.77
Utilities	15.0	100	0.6	1.1	6.50	0.76	3.54	7.25

	Pre-Crisis Low	CDS Price & Spread Levels			
		Current	-1M	-3M	-1Y
CDX Investment Grade	30bps	53.7	52.9	62.1	75.7
CDX High Yield	191bps	323.5	308.7	344.9	408.5

Portfolio Advisory Group – U.S. Fixed Income Strategies

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