



Carty & Company, Inc.

Weekly Market Update – May 2017, Week 4

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Compare Rates

US Treasuries			
Maturity	Yield	Change	1 Month Ago
3	1.44	(0.01)	1.45
5	1.77	(0.05)	1.82
7	2.04	(0.06)	2.10
10	2.23	(0.06)	2.29
30	2.89	(0.07)	2.96

Agencies			
Maturity	Yield	Change	1 Month Ago
3	1.31	(0.01)	1.32
5	1.47	(0.03)	1.50
7	1.74	(0.06)	1.80
10	2.16	(0.09)	2.25
25	2.82	(0.07)	2.89

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	1 Month Ago
1	0.85	0.01	0.84
5	1.44	(0.01)	1.45
10	2.16	0.00	2.16
15	2.62	0.03	2.59
30	3.04	0.03	3.01

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	1 Month Ago
1	1.37	0.02	1.35
5	2.32	(0.02)	2.34
10	3.48	0.00	3.48
15	4.23	0.05	4.18
30	4.90	0.05	4.85

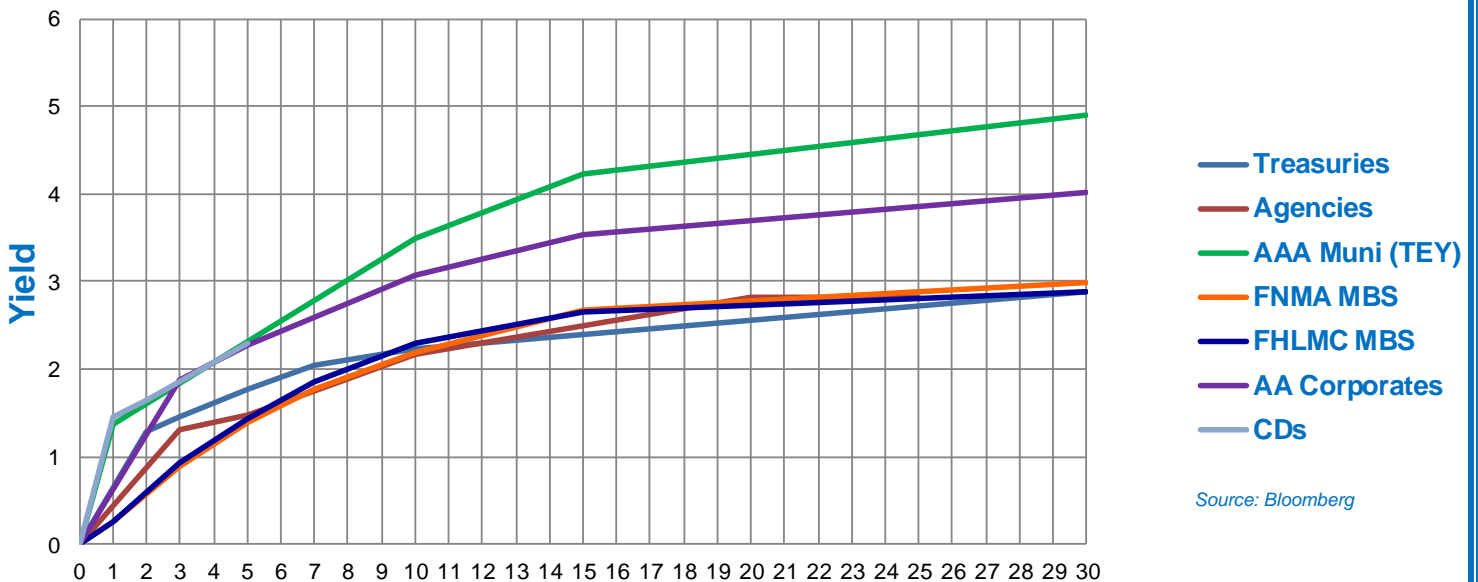
Brokered CDs			
Maturity	Yield	Change	1 Month Ago
1	1.45	0.00	1.45
2	1.65	0.00	1.65
5	2.30	0.00	2.30

Corporate Index (AA)			
Maturity	Yield	Change	1 Month Ago
3	1.87	(0.02)	1.89
5	2.28	(0.04)	2.32
10	3.07	(0.06)	3.13
15	3.54	(0.07)	3.61
30	4.01	(0.08)	4.09

MBS - Current Coupon			
FNMA	Yield	Change	1 Month Ago
15yr	2.40	0.05	2.35
30yr	3.02	0.07	2.95
FHLMC	Yield	Change	1 Month Ago
15yr	2.40	0.05	2.35
30yr	3.02	0.07	2.95

Equities			
Index	Current	Change	1 Month Ago
DJIA	21,047	109.00	20,938
S&P 500	2,413	29.00	2,384
Nasdaq	6,215	172.00	6,043

Fixed Income Sector Performance



Source: Bloomberg



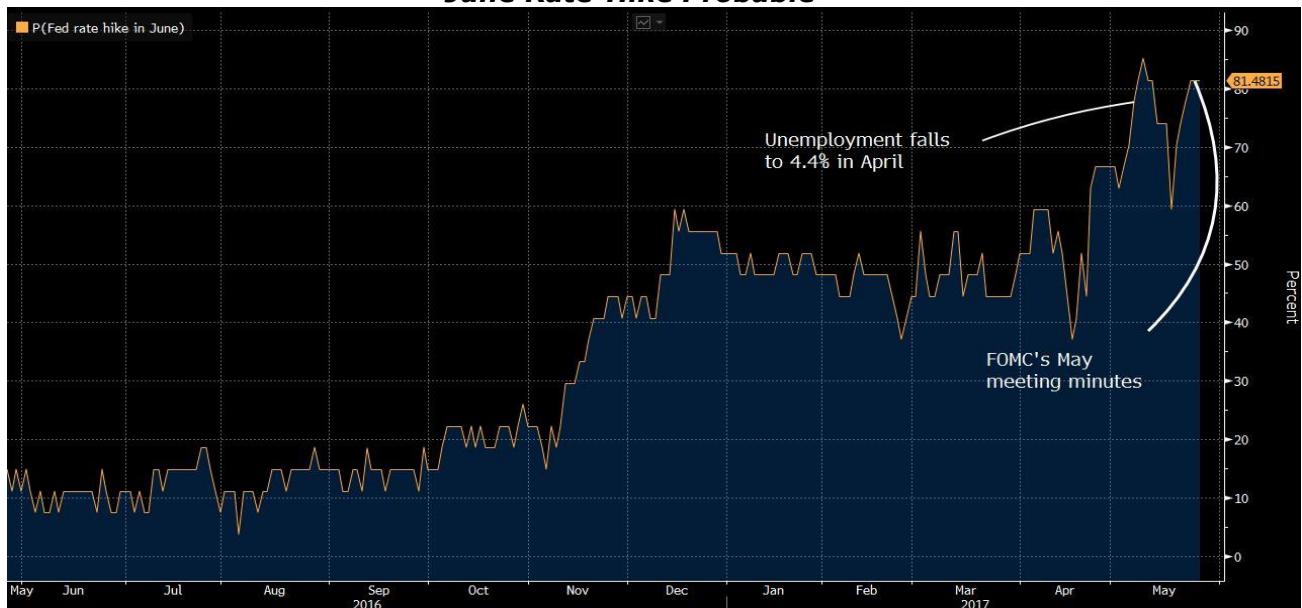
Economy

Jobs, Inflation Unlikely to Derail Next Fed Rate-Hike:

🏠 In the minutes of their meeting three weeks ago, Federal Reserve officials hinted that conditions were ripe for another boost in borrowing costs. Leading up to their June 13-14 meeting, there is little risk that key economic data on the labor market, inflation and demand will play the spoiler. Initial benefit filings decreased by 4k to 232k (estimate 240k), the lowest since late February.

- ➡ Topping the list in terms of important data on the calendar is the government's report on the nation's employment situation, followed closely by figures on inflation and personal spending. Early forecasts call for payrolls to rise by about 176,000 in May, in line with the average monthly gain since the start of 2016, while the jobless rate holds at a decade low of 4.4 percent.

June Rate-Hike Probable



Source: Bloomberg

Services, Investment Make Growth Less Tepid:

- 🏠 The U.S. economy's first quarter was not so miserable after all, as consumption contributed more to growth and business investment was even stronger than thought, Commerce Department data showed Friday.
- ➡ While the revisions were more positive than economists generally expected, the report reinforces that 2017 got off to a relatively weak start, a trend that's plagued the U.S. economy for several first quarters. Still, business investment was even brighter than previously estimated, thanks to fresh data on construction spending and companies' research and development expenses.
 - ➡ Gross domestic product rose at 1.2% annualized rate, revised from 0.7% (economist estimate 0.9%).
 - ➡ Consumer spending, the biggest part of the economy, rose 0.6%, revised from 0.3% (economist estimate 0.4%).



Fixed Income

Wall Street Revising Bond Yields to Stay Lower:

- ▮ Stubbornly low Treasury yields are spurring Wall Street to slash forecasts for the months ahead, and whether the Federal Reserve winds up raising rates again has little to do with it.
 - At about 2.25 percent, 10-year yields are plumbing 2017 lows, following a rally Wednesday as the central bank signaled an imminent rate hike but also a gradual approach to shrinking its massive bond portfolio. Banks including Goldman Sachs Group Inc. and JPMorgan Chase & Co. cut year-end yield forecasts this month, while maintaining calls for more tightening.
 - Ⓢ ***Both Goldman Sachs and JPMorgan reduced their 10-year Treasury year-end forecast down to 2.75% from 3.00%. In Carty & Company's Year Ahead 2017 published back in January, we predicted the 10-year yield would be 2.85%. We forecasted these challenges and positioned our clients accordingly when the bigger banks did not.***
 - The underlying message: While the economy may be robust enough to warrant further Fed moves, the bond-market forces that drove yields to record lows last year are still intact.

Municipal New Issues Poised to Fall:

- ▮ The pipeline of bond sales from U.S. state and local governments has dropped to its lowest in more than two months, signaling a continuation of the borrowing slowdown that's helped support a rally in the municipal market.
 - The volume of tax-exempt bonds that are scheduled to be sold over the next month has tumbled to about \$8 billion, the least since late March, according to data compiled by Bloomberg.
 - The decline comes as investors continue to pour money into municipal-bond mutual funds while yields, which move in the opposite direction as price, have slid to their lowest since soon after President Donald Trump's November election.
 - While the number of planned sales typically drops ahead of the Memorial Day weekend, borrowing by municipalities this year has pulled back from last year's record pace amid uncertainty about the direction of interest rates and Trump's policies.



Equities

Indexes:



- ❖ **DJIA** – 21,047 current – ▲ 0.5% on the month
- ❖ **S&P 500** – 2,413 current ▲ 1.2% on the month
- ❖ **Nasdaq** – 6,215 current ▲ 2.8% on the month

Foreign Investors Return to U.S. Stocks:

- 📌 Foreign investors are coming back to the U.S. equity market in a big way after a two-year hiatus, lured by a softening dollar and diminishing odds that the Federal Reserve will hasten the pace of interest-rate increases.
 - ➡ In the first three months of this year, overseas buyers purchased \$35 billion of shares, the biggest three-month sum since January 2013. That's brought the 12-month total to \$47 billion, according to the latest available U.S. Treasury data.
 - ➡ The move is a reversal from last five years, when foreign selling of U.S. equities accelerated as the Fed departed from other central banks around the world by winding down quantitative easing and, eventually, starting a cycle of rate increases.
 - ➡ Bloomberg's dollar index rallied 27 percent from summer 2014 through the start of this year as investors not only navigated the rising rate environment but also assessed the potential impact of President Donald Trump's spending plans. Now that the rally in the greenback has slowed, it may present a better entry point for foreigners.

Dollar Decline Brings Back Foreign Investment

Source: Bloomberg



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