Carty & Company, Inc.

Weekly Market Update – June 2017, Week 4

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Compare Rates

US Treasuries			
Maturity	Yield	Change	2 Weeks Ago
3	1.48	0.03	1.45
5	1.75	0.01	1.74
7	1.96	(0.05)	2.01
10	2.13	(0.08)	2.21
30	2.69	(0.17)	2.86

Agencies			
Maturity	Yield	Change	2 Weeks Ago
3	1.00	(0.50)	1.50
5	1.72	0.01	1.71
7	2.11	0.00	2.11
10	2.64	(0.02)	2.66
25	3.03	(0.01)	3.04

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	2 Weeks Ago
1	0.76	0.01	0.75
5	1.24	0.02	1.22
10	1.84	(0.02)	1.86
15	2.31	(0.01)	2.32
30	2.70	(0.02)	2.72

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	2 Weeks Ago
1	1.23	0.02	1.21
5	2.00	0.03	1.97
10	2.97	(0.03)	3.00
15	3.73	(0.02)	3.74
30	4.35	(0.03)	4.39

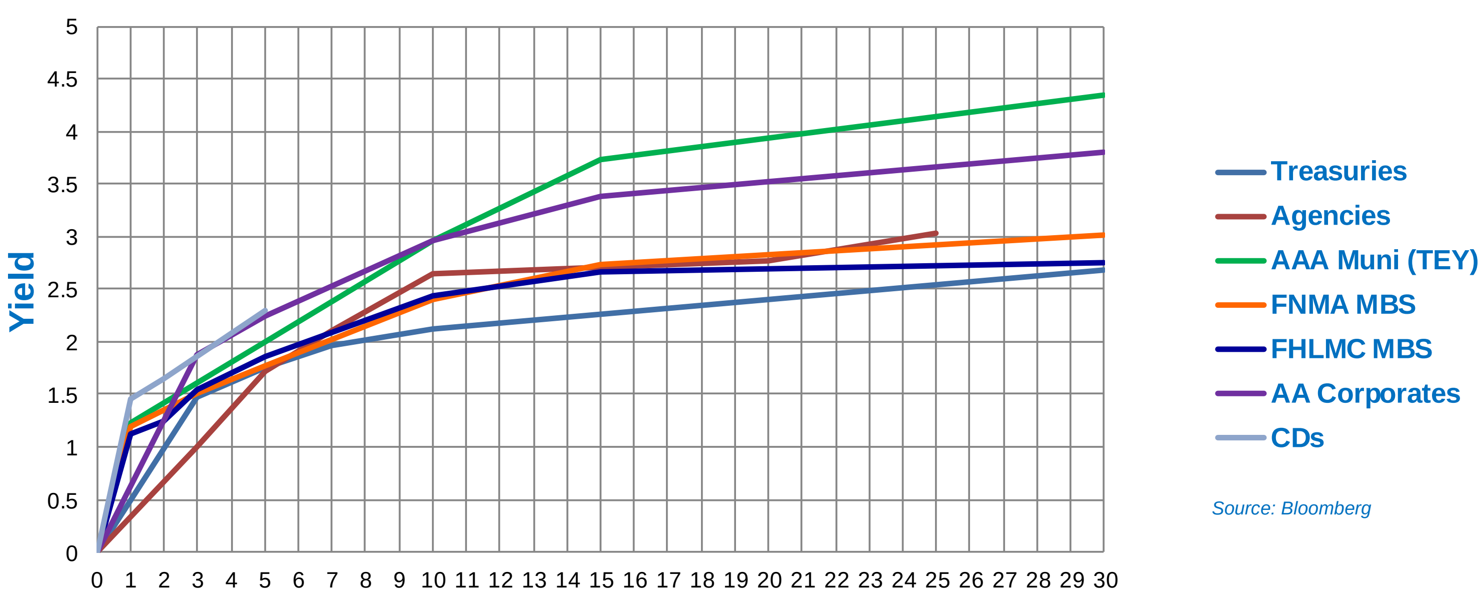
Brokered CDs			
Maturity	Yield	Change	2 Weeks Ago
1	1.45	0.00	1.45
2	1.65	0.00	1.65
5	2.30	0.00	2.30

Corporate Index (AA)			
Maturity	Yield	Change	2 Weeks Ago
3	1.88	0.00	1.88
5	2.25	(0.01)	2.26
10	2.97	(0.05)	3.02
15	3.39	(0.09)	3.48
30	3.80	(0.14)	3.94

MBS - Current Coupon			
FNMA	Yield	Change	2 Weeks Ago
15yr	2.24	(0.03)	2.27
30yr	2.81	(0.06)	2.87
FHLMC	Yield	Change	2 Weeks Ago
15yr	2.26	(0.02)	2.28
30yr	2.81	(0.06)	2.87

Equities			
Index	Current	Change	2 Weeks Ago
DJIA	21,395	123.00	21,272
S&P 500	2,438	8.00	2,430
Nasdaq	6,265	57.00	6,208

Fixed Income Sector Performance

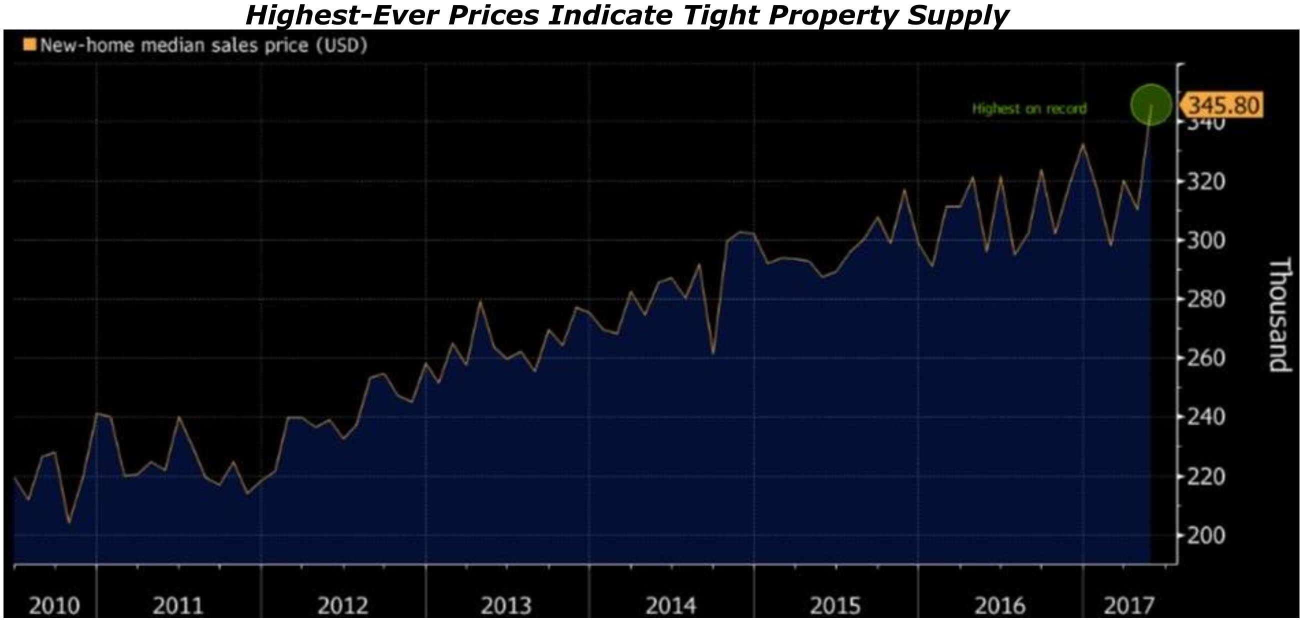


Source: Bloomberg

New Home Prices Hit All-Time High:

- Record prices for new U.S. homes indicate supply may be tight at the lower end of the market, government data showed Friday. Amid a sales pickup, this is pinching first-time buyers.
    - Low mortgage rates, a solid labor market and rising wages continue to drive steady demand for housing while scarce inventory sends prices to the highest ever. Even with the gain, the pace of sales remains at less than half the peak seen in 2005.
    - The industry faces headwinds including a lack of available workers and a limited number of plots to build on. Any supply rebound may be a ways off also. New-home construction starts are down in recent months and permits were at a one-year low in May, according to government data.
    - Single-family home sales increased 2.9 percent month-over-month to a $610k annualized pace (estimate $590k). Median sales price surged 16.8 percent year-over-year to a record $346k.

Highest-Ever Prices Indicate Tight Property Supply



Source: Commerce Department, HUD

Fed Tests Say Banks Can Quit Stressing, Pay Out:

- Record Fed stress tests results under the Dodd-Frank Act, released Thursday post-market, showed all 34 banks exceeded minimum projected capital and leverage ratios under severely adverse scenarios.
    - That is good news for banks, which can probably meet high expectations for payouts with next week’s Comprehensive Capital Analysis & Review - the Fed test phase that dictates whether lenders can increase dividends and buy back stock. Strong results may also bolster Donald Trump’s push for easier bank rules.

Big Banks Six-Months Late to Carty & Co Forecast:

- A slowdown in U.S. reflation, a bear market in oil prices and the onset of the summer lull are set to reinforce the allure of global bonds with long maturities, according to investors and analysts at Pimco, Citigroup Inc. and UBS Group AG.
  - In a reversal of Wall Street's high-conviction call late last year that duration trades were set to unravel, disappointing U.S. inflation data and the Trump administration's roadblocks in passing legislation have spurred a bond rally this month, in defiance of the Federal Reserve's hawkish posture.
- **This would not be news to Carty & Company clients. In our Year Ahead 2017 Market Preview released in January we said this:**
  - ✓ *"The dominant view is that President-Elect Trump will swiftly enact pro-growth policies when he enters the White House in January. This would bolster riskier assets, like stocks and speculative-grade bonds, which have both been going gangbusters in recent weeks and would cause yields in Treasuries to continue climbing."*
  - ✓ *"However, President-Elect Trump could find it incredibly difficult to enact meaningful initiatives within his first few months on the job. President-Elect Trump's first 100 days in office will include many major initiatives; reducing corporate / individual tax rates, reducing cumbersome regulations for business, modifying existing healthcare laws and possible changes to U.S. trade policy. Each initiative is no small task and will take time to propose and get approved through Congress. It is our view the effects of these positive changes will not be felt until later in 2017 or the beginning of 2018."*

Bond Markets Calling Fed's Bluff:

- Bond markets are calling the Fed's bluff by doubling down bets on low inflation and growth, with interest rates at the long-end of the yield curve fully reversing post-election increases.
  - The $7.32 billion iShares 20+ Year Treasury Bond exchange-traded fund has returned a whopping 8 percent so far this year, while taking in $1.6 billion of inflows.
  - Investors, meanwhile, are no longer receiving extra compensation to own 10-year U.S. Treasuries instead of shorter-maturity obligations, a spread known as the term premium.

Equities

Indexes:

- ❖ **DJIA –** 21,395 current – ▲ 0.6% the past 2 weeks
- ❖ **S&P 500 –** 2,438 current ▲ 0.3% the past 2 weeks
- ❖ **Nasdaq –** 6,265 current ▲ 0.9% the past 2 weeks

Stocks Are Ignoring Oil's Bear Market:

- The bear market in crude resembles in many ways its more severe predecessors from 2014 and 2016: Oil prices plummeting, non-U.S. producers floundering to keep supply at bay and concerns swirling around the impact of energy companies on high-yield bonds.
  - This time the stock market does not seem to care. The correlation between daily swings in the S&P 500 Index and crude has been roughly zero the past month. This is the lowest since January and far below the five-year highs reached in 2016 as the oil prices bottomed near $26 before staging a rebound.
  - One explanation is the bear market that ended in 2016 wiped out the market capitalizations of energy companies across the board, lessening the industry's impact on the overall market. Today, energy stocks account for less than 6 percent of the S&P 500, compared with 11 percent three years ago.
  - Another possibility is that investors don't see systemic risk tied to oil's weakness. Correlation between crude and the high-yield bond market has also weakened of late. The figure currently sits at 0.32, compared with a peak of 0.87 in February 2016.

Broad Global Market United States Stock Index

Source: Bloomberg

Sector	Year			Price per Earnings	Price to Sales	Dividend Yield
	1 Month	3 Month	YTD			
Consumer Discretionary 17 Industries	+0.61%	+4.49%	+10.01%	16.5x	1.0x	1.27%
Consumer Staples 9 Industries	+0.08%	+1.00%	+6.84%	15.1x	1.0x	2.86%
Energy 3 Industries	-6.53%	-8.32%	-16.75%	14.0x	1.2x	1.74%
Financials 12 Industries	+2.68%	+2.03%	+2.50%	15.2x	2.1x	1.91%
Health Care 8 Industries	+7.57%	+8.87%	+18.16%	18.2x	1.2x	1.86%
Industrials 17 Industries	+1.48%	+3.79%	+6.83%	15.7x	1.1x	1.85%
Information Technology 10 Industries	+0.94%	+7.17%	+18.45%	14.8x	2.1x	0.90%
Materials 6 Industries	+1.88%	+2.47%	+7.16%	13.2x	1.1x	1.79%
Telecommunication Services 3 Industries	-0.61%	-7.16%	-10.54%	22.6x	1.3x	4.83%
Utilities 6 Industries	+2.23%	+3.19%	+9.40%	17.1x	1.3x	3.78%