



Carty & Company, Inc.

Weekly Market Update – July 2017, Week 2

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Compare Rates

US Treasuries			
Maturity	Yield	Change	2 Weeks Ago
3	1.54	0.09	1.45
5	1.86	0.12	1.74
7	2.12	0.11	2.01
10	2.32	0.11	2.21
30	2.91	0.05	2.86

Agencies			
Maturity	Yield	Change	2 Weeks Ago
3	1.56	0.06	1.50
5	1.79	0.08	1.71
7	2.22	0.11	2.11
10	2.75	0.09	2.66
25	3.10	0.06	3.04

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	2 Weeks Ago
1	0.90	0.15	0.75
5	1.35	0.13	1.22
10	1.97	0.11	1.86
15	2.47	0.15	2.32
30	2.82	0.10	2.72

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	2 Weeks Ago
1	1.45	0.24	1.21
5	2.17	0.21	1.97
10	3.18	0.18	3.00
15	3.99	0.25	3.74
30	4.55	0.16	4.39

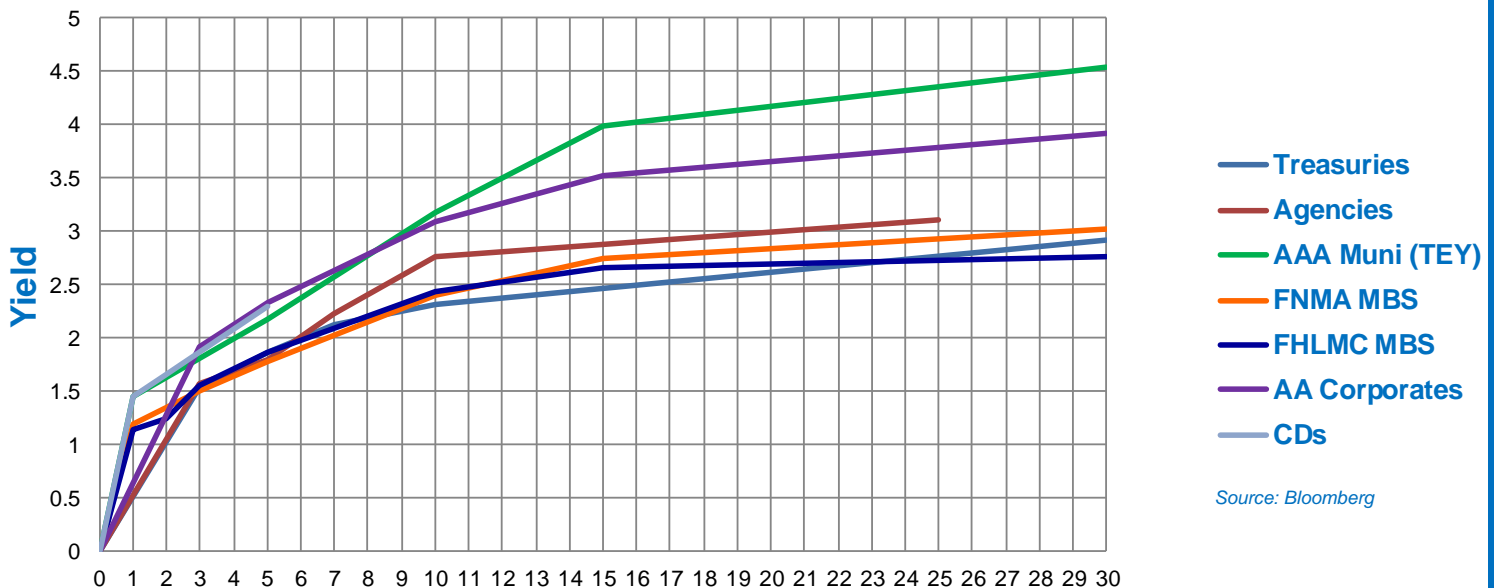
Brokered CDs			
Maturity	Yield	Change	2 Weeks Ago
1	1.45	0.00	1.45
2	1.65	0.00	1.65
5	2.30	0.00	2.30

Corporate Index (AA)			
Maturity	Yield	Change	2 Weeks Ago
3	1.91	0.04	1.88
5	2.32	0.06	2.26
10	3.09	0.08	3.02
15	3.51	0.03	3.48
30	3.92	(0.02)	3.94

MBS - Current Coupon			
FNMA	Yield	Change	2 Weeks Ago
15yr	2.34	0.07	2.27
30yr	2.95	0.08	2.87
FHLMC	Yield	Change	2 Weeks Ago
15yr	2.36	0.08	2.28
30yr	2.95	0.08	2.87

Equities			
Index	Current	Change	2 Weeks Ago
DJIA	21,638	366.08	21,272
S&P 500	2,459	28.88	2,430
Nasdaq	6,314	105.68	6,208

Fixed Income Sector Performance



Source: Bloomberg



Economy

Second Straight Retail Sales Drop:

- 📊 Retail sales unexpectedly dropped for a second month in June, signaling consumers are providing only modest support for the U.S. economy, Commerce Department data showed Friday.
 - ➔ Sales fell in six of 13 major retail categories in June. The figures suggest households remain cautious about spending and may provide less of a boost for the second-quarter economy after a weak start to the year. Receipts weakened at department stores, sporting goods outlets and restaurants.
 - ➔ While the release accounts for only a small part of consumer purchases, household spending on services has kept up a moderate pace as steady job gains bolster Americans' pocketbooks. Faster wage gains, still elusive in this expansion, would provide a further boost to consumption.

Inflation Seen Taking Longer to Reach Fed Goal:

- 🌐 Little change in the U.S. cost of living in June signals inflation may take even longer to reach the Federal Reserve's goal, a Labor Department report showed Friday.
 - ➔ The consumer-price index was unchanged (forecast was for 0.1% rise) following a 0.1% decline the prior month. From a year earlier, prices were up 1.6% (forecast was 1.7%), the smallest advance since October.
 - ➔ The report indicates inflation may remain stuck below the goal of Fed policy makers for a longer period of time, is a bit broader in scope and underscores concerns of some central bankers about additional rate increases.
 - ➔ The Fed's preferred gauge of inflation, a separate figure based on what consumers purchase, has exceeded its 2 percent goal only once since April 2012, although some Fed officials focus on the measure excluding food and energy. Both remain below their target.

Consumer Sentiment at Nine-Month Low:

- 🌐 Weaker expectations about personal finances helped drive U.S. consumer optimism this month to the lowest level since October, University of Michigan preliminary survey data showed Friday.
 - ➔ While 51 percent of respondents, the largest share in almost 17 years, reported their finances improved in July, a gauge of expectations about their financial well-being slumped. It was the weakest expectation level since August of last year.
 - ➔ The decline in sentiment shows confidence is the lowest since President Donald Trump was elected. The decrease in expectations was concentrated among Republicans, underscoring the frustrations voters have with policy makers in Washington and the uphill path for tax and health-care policy.



Fixed Income

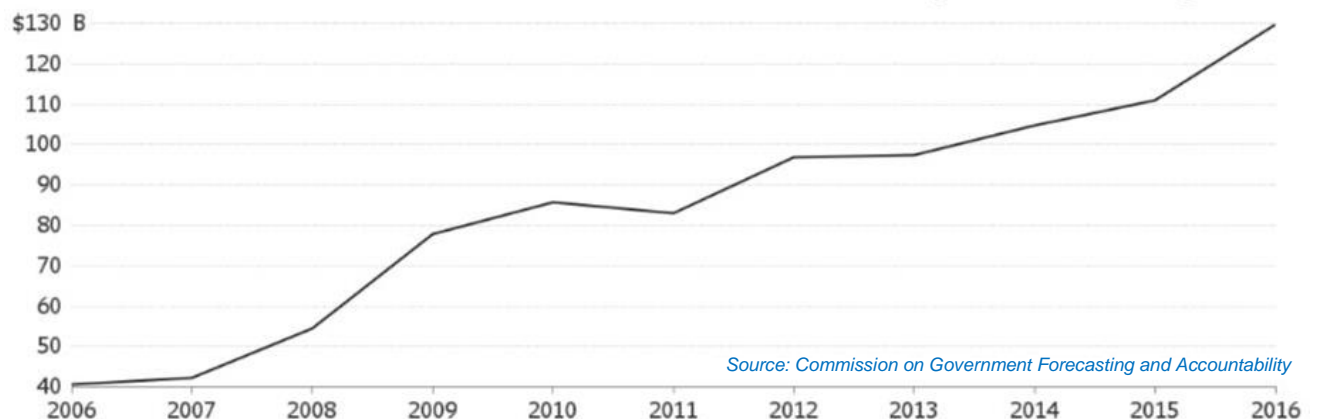
Bonds Dip, Curve Steepens:

- 🏠 Last week Fed Chair Yellen said we expect significantly stronger growth in Q2 from Q1. Yellen's upbeat tone added to losses in Treasuries, which followed their European peers lower. The long end of the curve is suffering from a poor 30-year auction and Yellen's comment she expects some increase in long-term rates as the Fed balance sheet runs off.
 - ➡ The sell-off halted on Friday after disappointing retail sales and CPI data. Odds of a year-end Fed rate-hike have now been reduced to 40%, down from 60% after the release of June's FOMC minutes.

Illinois Budget May Add to Pension Debt:

- 🏠 Illinois's biggest financial challenge, the \$130 billion debt to its workers' pension funds, may only get bigger thanks to the budget that pulled the government back from the brink.
 - ➡ That spending plan, pushed through by lawmakers eager to keep Illinois's bond rating from being cut to junk, allows the state to sink deeper into the hole by giving it five years to phase in hundreds of millions of dollars in increased contributions to four of its five retirement plans. Those extra payments stem from the funds' decisions to roll back forecasts for what they expect to make on their investments, which means Illinois will need to set aside more money to ensure it can cover pension checks due in the future.
 - ➡ Illinois's swelling pension-fund debt has it at risk of becoming the only U.S. state to be cut to junk, despite the end to a two-year budget impasse that left it with a record backlog of unpaid bills, cut aid to universities and undermined its standing on Wall Street.
 - ➡ While Illinois bonds have rallied since the legislature broke the stalemate this month, Moody's Investors Service said it may downgrade Illinois because of its severely underfunded retirement system.

Growth in Illinois' Unfunded Liabilities Threatens Fiscal Stability and Credit Rating





Equities

Indexes:



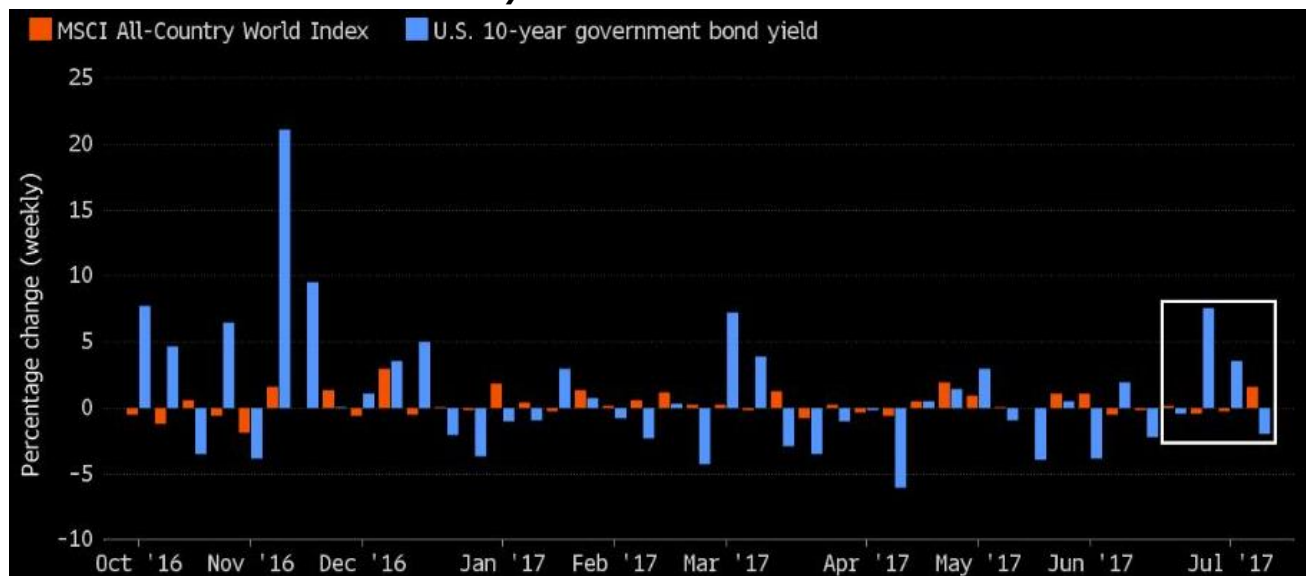
- ❖ **DJIA** – 21,638 current – ▲ 1.7% the past 2 weeks
- ❖ **S&P 500** – 2,459 current ▲ 1.2% the past 2 weeks
- ❖ **Nasdaq** – 6,314 current ▲ 1.7% the past 2 weeks

Stocks, Bonds Have Longest Divergence Since October:

Not since the month before the U.S. election have equities worldwide been out of sync with Treasury yields for this long. The two are set for a fourth week of divergence as comments by Federal Reserve Chair Janet Yellen spurred expectations that the central bank won't rush to tighten policy.

- ➔ The MSCI All-Country World Index has gained 1.6 percent this week, while Treasuries have risen, sending the yield on 10-year bonds lower.
- ➔ With the MSCI All-Country World Index heading for its best week since April, the value of global equities has shot up. At \$76.3 trillion, the stock market is the biggest it has ever been. Emerging-market shares have led the gains, while Europe has had little to contribute, with its equities falling from their high approximately two months ago.

Global Stocks and Treasury Yields Have Been at Odds for Four Weeks



Source: Bloomberg

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