



Carty & Company, Inc.

Weekly Market Update – July 2017, Week 3

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Compare Rates

US Treasuries			
Maturity	Yield	Change	Last Week
3	1.49	(0.05)	1.54
5	1.80	(0.06)	1.86
7	2.05	(0.07)	2.12
10	2.23	0.02	2.21
30	2.80	(0.11)	2.91

Agencies			
Maturity	Yield	Change	Last Week
3	1.52	(0.04)	1.56
5	1.72	(0.07)	1.79
7	2.14	(0.08)	2.22
10	2.65	(0.10)	2.75
25	3.00	(0.10)	3.10

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	Last Week
1	0.84	(0.06)	0.90
5	1.25	(0.10)	1.35
10	1.87	(0.10)	1.97
15	2.38	(0.09)	2.47
30	2.71	(0.11)	2.82

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	Last Week
1	1.36	(0.09)	1.45
5	2.02	(0.16)	2.18
10	3.02	(0.16)	3.18
15	3.84	(0.15)	3.98
30	4.37	(0.18)	4.55

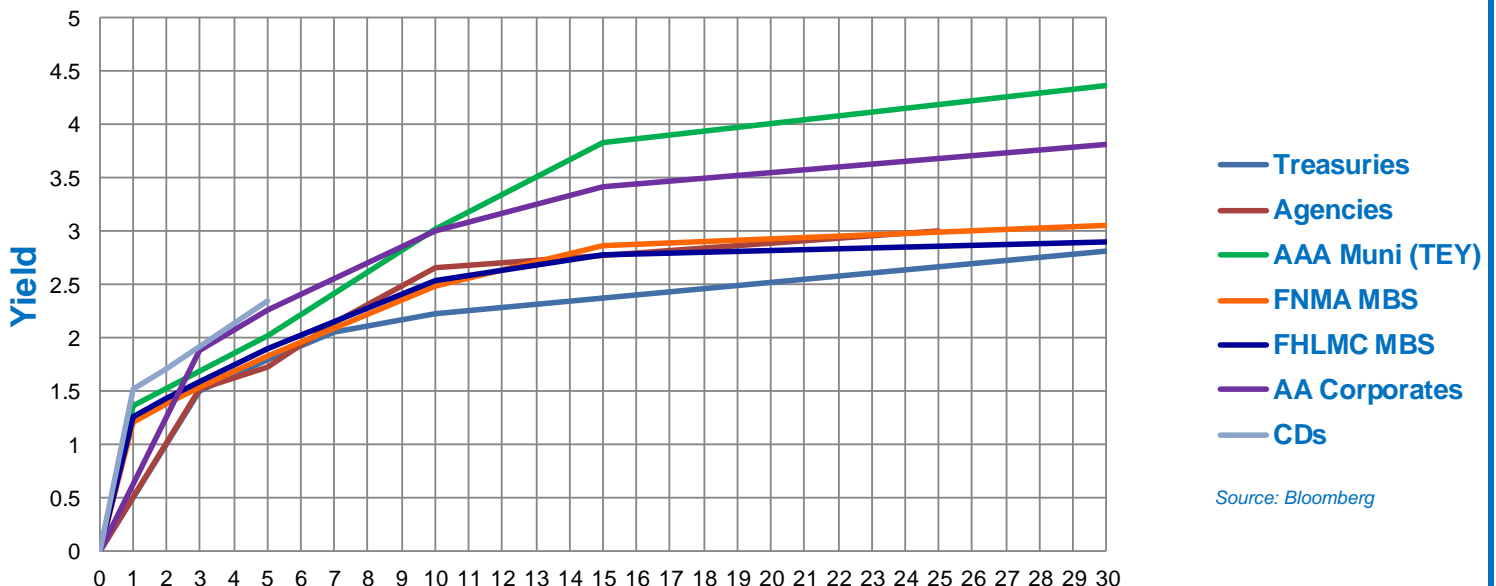
Brokered CDs			
Maturity	Yield	Change	Last Week
1	1.52	0.07	1.45
2	1.70	0.05	1.65
5	2.35	0.05	2.30

Corporate Index (AA)			
Maturity	Yield	Change	Last Week
3	1.87	(0.04)	1.91
5	2.25	(0.07)	2.32
10	3.00	(0.09)	3.09
15	3.41	(0.10)	3.51
30	3.81	(0.11)	3.92

MBS - Current Coupon			
FNMA	Yield	Change	Last Week
15yr	2.26	(0.08)	2.34
30yr	2.88	(0.07)	2.95
FHLMC	Yield	Change	Last Week
15yr	2.29	(0.07)	2.36
30yr	2.89	(0.06)	2.95

Equities			
Index	Current	Change	Last Week
DJIA	21,567	(70.87)	21,638
S&P 500	2,471	11.59	2,459
Nasdaq	6,381	66.55	6,314

Fixed Income Sector Performance



Source: Bloomberg



Economy

Leading Indicators Increase in June:

- Leading indicators increased in June, beating expectations and pointing to an improving economic outlook.
 - Leading indicators increased 0.6 percent in June, beating estimates for a 0.4 percent rise according to economists polled by Reuters. This is up from a gain of 0.3 percent in the prior month, according to the Conference Board.
 - The index is a closely followed indicator for how healthy the U.S. economy is performing. The Conference Board tracks 10 components, including manufacturers' new orders, stock prices and average weekly initial claims for unemployment insurance.

Jobless Claims Fall Near 5-Month Low:

- The number of Americans filing for unemployment benefits fell more than expected last week, touching its lowest level in nearly five months. This suggests strong job gains that should continue to underpin economic growth.
 - Sustained labor market strength likely keeps the Federal Reserve on track to raise interest rates for a third time this year. It is anticipated they will shortly announce a plan to start reducing a \$4.2 trillion portfolio of Treasury bonds and mortgage-backed securities, despite a recent ebb in inflation pressures.
 - Initial claims for state unemployment benefits dropped 15,000 to a seasonally adjusted 233,000 for the week ended July 15th, the Labor Department said on Thursday. That was the lowest level since February, when claims fell to 227,000, which was the best reading since March 1973.
 - The labor market is near full employment, with the jobless rate at 4.4 percent. Last week's drop in claims unwound the recent increase which economists had attributed to volatility associated with different timings of automobile plant shutdowns for annual retooling.

4-Week Moving Average of Initial Jobless Claims





Fixed Income

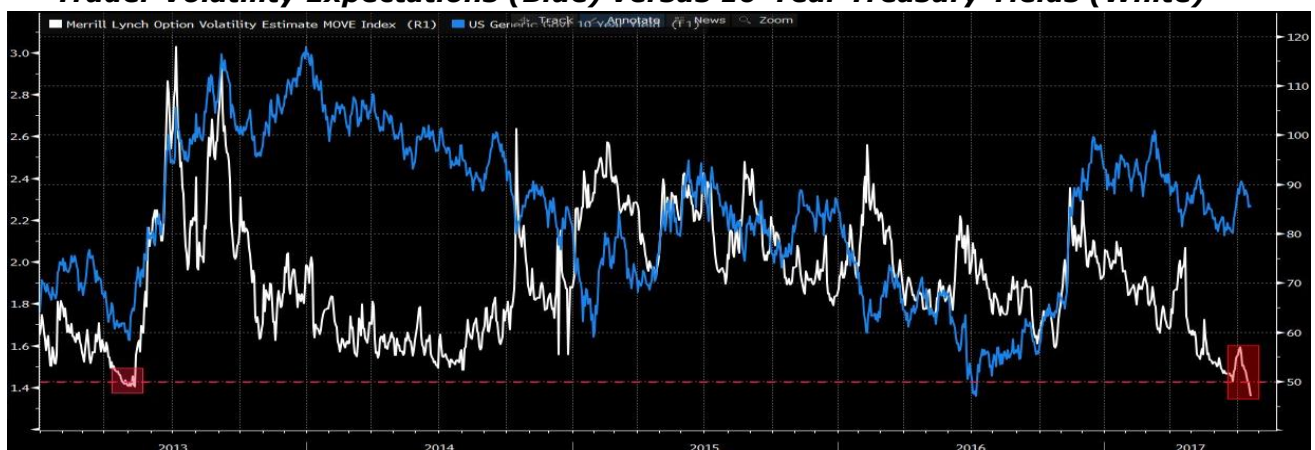
Flat Curves & Tight Spreads Support Lower Coupons:

- The yield curve is now the flattest it has been since President Trump's election. With yields range-bound, rate forecasts are suggesting the need for defensive coupons are waning.
- The availability of bond issuers offering split maturities with separate couponing structures allows investors to pick up extra yield without extending duration or drifting down in credit quality. As spreads tighten and the curve flattens, choosing 4% coupons over 5% begins to make more sense.
 - While an argument can be made for premium bond structures offering price protection, the current range-bound market places low odds on sharply rising rates. Also, data from the 2016 rate backup suggest that the added price protection is minimal, and is a non-factor to true buy-and-hold investors.

Bond Market Volatility at Historic Low:

- Bond market volatility has been very low, with Treasury yields moving in an extremely tight trading range. The MOVE index, the bond-market equivalent of the VIX, accelerated its slide after July 12th comments from Janet Yellen that were seen as dovish. The gauge fell below 50 this week, for the first time since 2013 and now stands at the lowest since its inception in 1988.
- The index's historic low shows traders expect volatility to drop, but in the past, the outcome has been the opposite. In the 11 days when the index dipped below 50, Treasury yields jumped 0.4% in the next month and 0.9% in the next three months, according to LPL Research. The last time the gauge was close to this low was in 2013, before the taper tantrum. So a really low MOVE index might be a better indication of market complacency than volatility.

Trader Volatility Expectations (Blue) versus 10-Year Treasury Yields (White)





Equities

Indexes:



- ❖ **DJIA** – 21,567 current - ▼ 0.3% the past week
- ❖ **S&P 500** – 2,471 current - ▲ 0.5% the past week
- ❖ **Nasdaq** – 6,381 current - ▲ 1.7% the past week

Stocks Fall, Dollar Sinks as Politics Take a Toll:

- 📌 U.S. stocks sank Friday and the euro climbed to its strongest level against the dollar since January 2015 as investors assessed an investigation into U.S. President Donald Trump that may stall his economic agenda.
 - European shares fell as the common currency's rally weighed on carmakers and other exporters. Oil slumped as OPEC supply increased this month.
 - All major U.S. equity gauges were lower Friday, with energy shares leading decliners in the S&P 500 Index. Industrials also struggled after General Electric Co. dropped 3 percent on the company's warning that its earnings for the year will likely be near the bottom of its projected range.
 - The Bloomberg Dollar Spot Index was at a 14-month low.

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

Sector	Year			Price per Earnings	Price to Sales	Dividend Yield
	1 Month	3 Month	YTD			
Consumer Discretionary 17 Industries	+1.48%	+3.08%	+11.62%	16.5x	1.0x	1.27%
Consumer Staples 9 Industries	-1.96%	-0.16%	+5.81%	15.1x	1.0x	2.86%
Energy 3 Industries	+1.33%	-4.14%	-14.07%	14.0x	1.2x	1.74%
Financials 12 Industries	+1.80%	+5.40%	+5.80%	15.2x	2.1x	1.91%
Health Care 8 Industries	+2.83%	+9.69%	+18.67%	18.2x	1.2x	1.86%
Industrials 17 Industries	+0.99%	+4.57%	+8.90%	15.7x	1.1x	1.85%
Information Technology 10 Industries	+4.00%	+9.75%	+22.24%	14.8x	2.1x	0.90%
Materials 6 Industries	+2.74%	+5.51%	+10.97%	13.2x	1.1x	1.79%
Telecommunication Services 3 Industries	-4.46%	-8.64%	-13.41%	22.6x	1.3x	4.83%
Utilities 6 Industries	-1.85%	+2.91%	+8.50%	17.1x	1.3x	3.78%

Important Information Regarding This Report

Source: Bloomberg

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