Carty & Company, Inc.

Weekly Market Update – July 2017, Week 4

By Ryan R. Coombs - Vice President, Research & Strategies

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Compare Rates

US Treasuries			
Maturity	Yield	Change	Last Week
3	1.50	0.01	1.49
5	1.83	0.03	1.80
7	2.10	0.05	2.05
10	2.29	0.06	2.23
30	2.89	0.09	2.80

Agencies			
Maturity	Yield	Change	Last Week
3	1.52	(0.00)	1.52
5	1.74	0.02	1.72
7	2.18	0.04	2.14
10	2.69	0.04	2.65
25	3.05	0.05	3.00

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	Last Week
1	0.85	0.01	0.84
5	1.26	0.01	1.25
10	1.90	0.03	1.87
15	2.43	0.04	2.38
30	2.76	0.04	2.71

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	Last Week
1	1.37	0.02	1.35
5	2.03	0.02	2.02
10	3.07	0.05	3.02
15	3.91	0.07	3.84
30	4.44	0.07	4.37

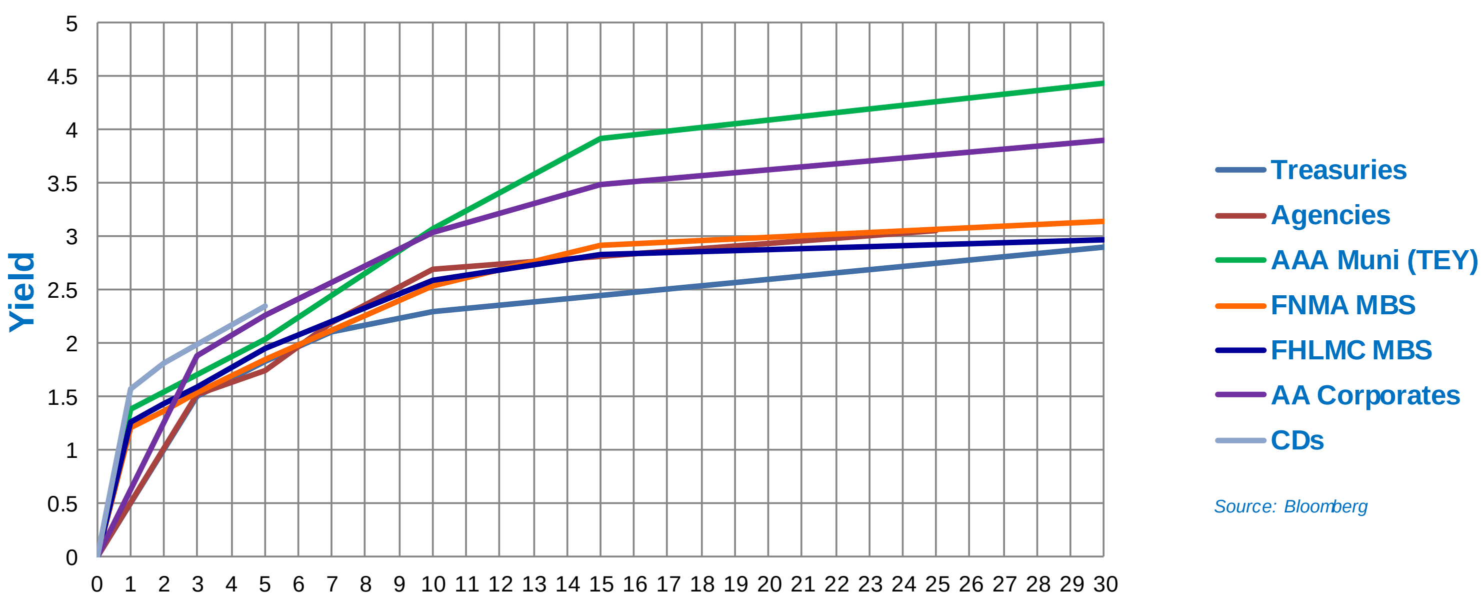
Brokered CDs			
Maturity	Yield	Change	Last Week
1	1.56	0.04	1.52
2	1.81	0.11	1.70
5	2.35	0.00	2.35

Corporate Index (AA)			
Maturity	Yield	Change	Last Week
3	1.87	0.00	1.87
5	2.26	0.01	2.25
10	3.04	0.04	3.00
15	3.48	0.07	3.41
30	3.90	0.09	3.81

MBS - Current Coupon			
FNMA	Yield	Change	Last Week
15yr	2.29	0.03	2.26
30yr	2.90	0.02	2.88
FHLMC	Yield	Change	Last Week
15yr	2.30	0.01	2.29
30yr	2.93	0.04	2.89

Equities			
Index	Current	Change	Last Week
DJIA	21,829	261.60	21,567
S&P 500	2,473	1.72	2,471
Nasdaq	6,375	(6.32)	6,381

Fixed Income Sector Performance



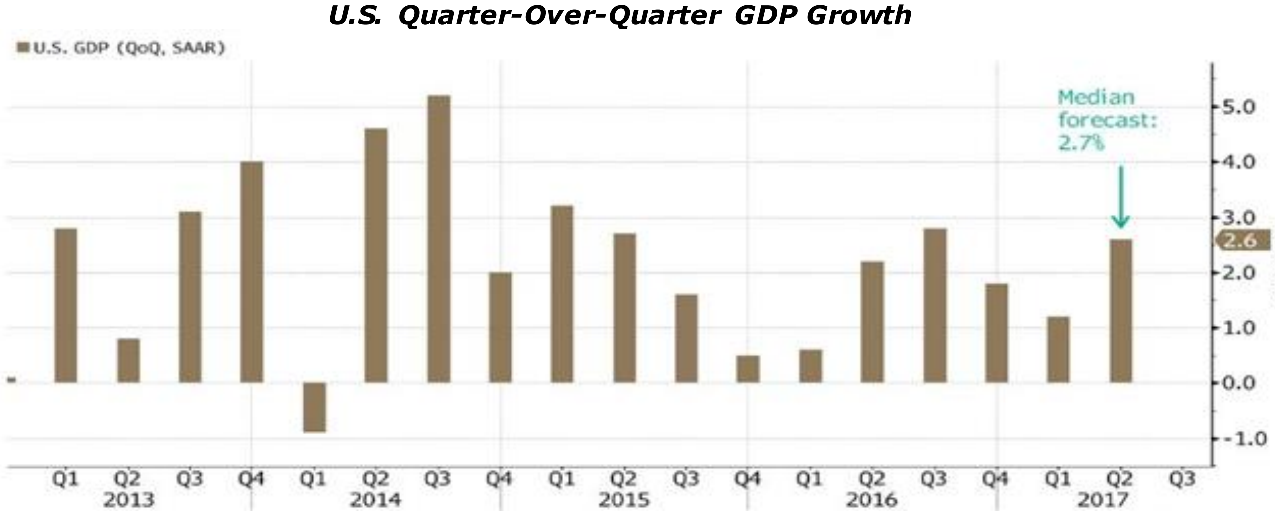
Source: Bloomberg

Economy

Second-Quarter GDP of 2.6% Underscores Resilience:

- Pickups in consumer and business-equipment spending powered a U.S. economic rebound in the second quarter, signaling the eight-year expansion is on track to be sustained. Gross domestic product rose at a 2.6 percent annualized rate, according to a Commerce Department report Friday. First-quarter growth was revised to 1.2 percent from 1.4 percent.
  - The results confirm that the slowdown at the start of 2017 was temporary and show an economy growing in the first half at about a 1.9 percent rate, compared with the expansion's 2.2 percent average pace through the end of 2016.
  - Consumer spending led the rebound last quarter, helped by a steady job market and household finances boosted by stock and home-equity gains. Disposable incomes, adjusted for inflation, posted the best back-to-back quarters since the first half of 2015.
  - Business investment in equipment rose at an 8.2 percent pace, the most in almost two years, signaling companies are optimistic about demand in the U.S. as well as in overseas markets.
  - The overall pace of nonresidential investment eased from 7.2 percent amid a slowdown in the structures category that followed a boom in oil-and-gas wells in the prior period. Intellectual-property investment also slowed.
  - A particular weak spot last quarter was residential investment, which fell by the most since 2010 following a strong gain in the previous period. Builders are coping with a shortage of available labor and lots, and warm weather in the first quarter may have pulled forward some activity.
  - Price data in the report indicated that inflation moved away from the Federal Reserve's 2 percent goal. Excluding food and energy, the Fed's preferred price index, tied to personal spending, rose at a 0.9 percent annualized rate last quarter, matching the weakest gain since 2010.

U.S. Quarter-Over-Quarter GDP Growth



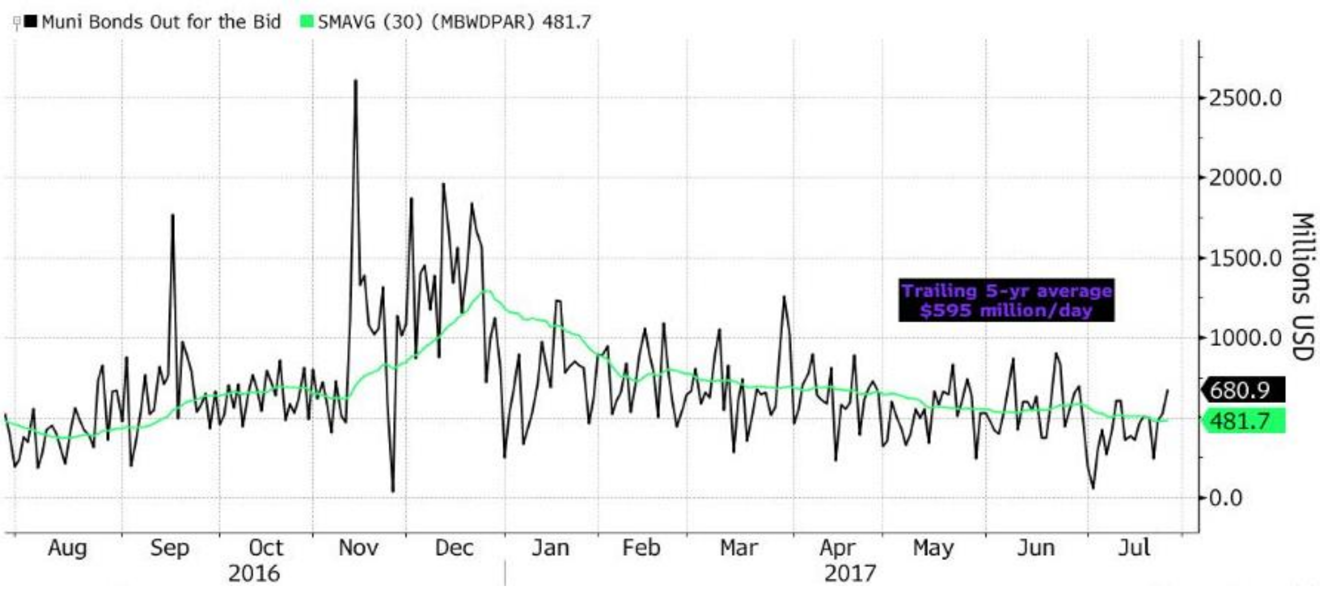
Source: U.S. Commerce Department

Fixed Income

Dropping Supply Suggests Municipal Outperformance:

- With municipal primary supply down 12.4 percent year-to-date compared to the same period in 2016, investors seem less inclined to sell what they already own, suggesting outperformance for the sector versus U.S. Treasuries may continue over the near-term.
    - Last week saw the daily bids wanted 30-day trailing average fall to $116 million below the trailing 5-year average of $595 million. This is the largest gap since September 12th when it was $131 million below.
    - Yields of securities due in 10 years on Bloomberg's high grade benchmark municipal yield curve rose to the highest since July 19th. Debt issued by U.S. states and local governments maturing in 10 years yielded 82.664 percent of Treasuries Friday, compared with 80.9 percent in the previous session and 86.2 percent a month ago.
    - The municipal index year-to-date performance has been 4.37 percent versus 2.06 percent for Treasuries.

Muni Bids Wanted 30-Day Moving Average Well Below Trailing 5-Year Average



Possible Steeper Treasury Curve Coming:

- The Fed is setting the stage for a possible Treasury curve steepener with balance-sheet normalization starting "relatively soon" and with the fed funds rate not having to rise much further to a neutral policy stance, under the assumption that the real neutral rate will remain around zero.
    - Once balance-sheet reduction starts, increases in the fed funds rate, which "would not have to rise all that much further to get to a neutral policy stance," in Yellen's own words -- may be deferred.

Equities

Indexes:

- **DJIA –** 21,829 current – ▲ 1.2% the past week
- **S&P 500 –** 2,471 current - ▲ 0.1% the past week
- **Nasdaq –** 6,381 current – ▼ 0.1% the past week

Tech Jitters Hit Emerging-Market Stocks:

- Surging valuations for emerging-market technology shares are giving some investors pause. Growth stocks are the most expensive in more than a decade relative to so-called value equities after a run up in companies including Weibo Corp. and Samsung Electronics Co. this year on the back of soaring global demand for equities tied to technology.
  - Investors are increasingly on edge about historically high equity valuations. The benchmark U.S. technology index posted a sudden drop Thursday during a convulsion of selling that followed an ominous note from a JPMorgan Chase & Co. derivatives strategist who said the market's volatility drought could presage protracted pain. While most of the hand wringing has been focused on U.S. giants such as Facebook Inc. and Amazon.com Inc., emerging-market shares in the sector are also looking vulnerable.

Investors Pay 72% Premium in Growth Stocks Compared to 36% 10-Year Average

Source: Bloomberg