



Carty & Company, Inc.

Weekly Market Update – September 2017, Week 3

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Compare Rates

US Treasuries			
Maturity	Yield	Change	1 Week Ago
3	1.58	0.06	1.52
5	1.87	0.07	1.80
7	2.10	0.07	2.03
10	2.26	0.06	2.20
30	2.80	0.03	2.77

Agencies			
Maturity	Yield	Change	1 Week Ago
3	1.59	0.06	1.53
5	1.78	0.06	1.72
7	2.18	0.07	2.11
10	2.66	0.05	2.61
25	2.96	0.04	2.92

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	1 Week Ago
1	0.80	0.03	0.77
5	1.28	0.11	1.17
10	1.93	0.07	1.86
15	2.39	0.04	2.35
30	2.83	0.03	2.80

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	1 Week Ago
1	1.28	0.04	1.24
5	2.07	0.18	1.89
10	3.12	0.12	3.00
15	3.85	0.06	3.79
30	4.56	0.04	4.52

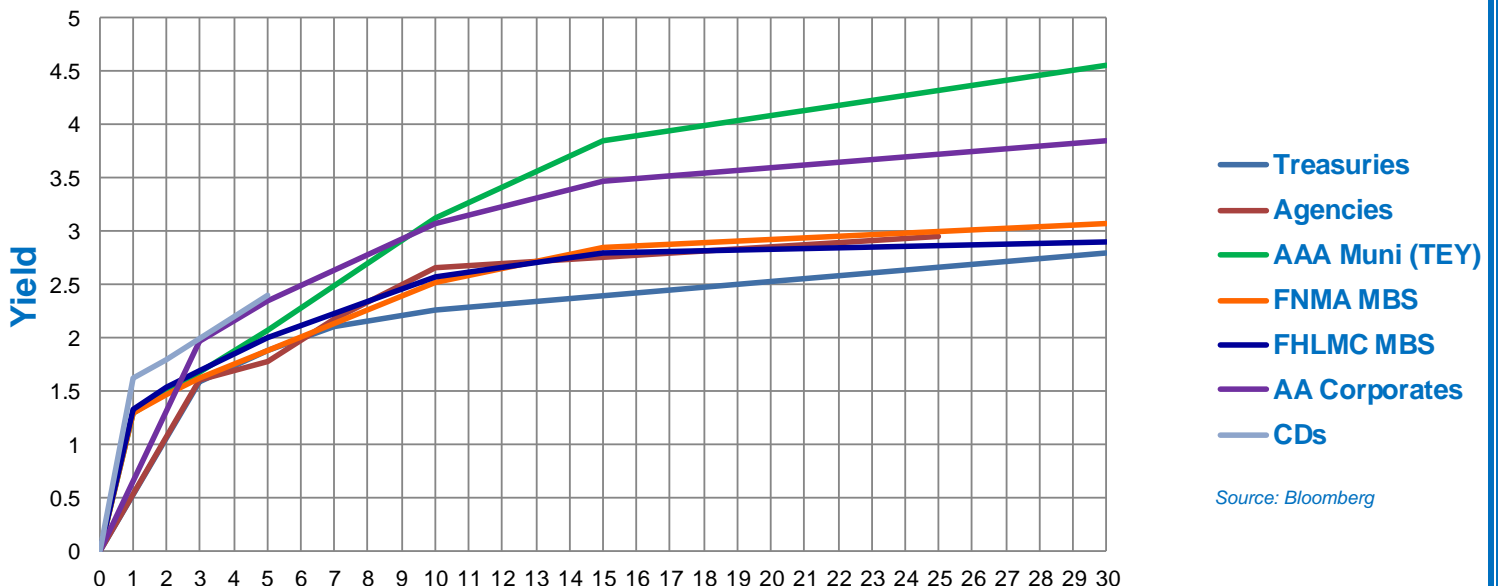
Brokered CDs			
Maturity	Yield	Change	1 Week Ago
1	1.62	0.02	1.60
2	1.80	(0.01)	1.81
5	2.40	0.00	2.40

Corporate Index (AA)			
Maturity	Yield	Change	1 Week Ago
3	1.97	0.07	1.90
5	2.34	0.08	2.26
10	3.06	0.07	2.99
15	3.48	0.04	3.43
30	3.85	0.02	3.83

MBS - Current Coupon			
FNMA	Yield	Change	1 Week Ago
15yr	2.28	0.03	2.25
30yr	2.86	0.06	2.80
FHLMC	Yield	Change	1 Week Ago
15yr	2.30	0.12	2.18
30yr	2.87	0.06	2.81

Equities			
Index	Current	Change	1 Week Ago
DJIA	22,328	81.18	22,247
S&P 500	2,500	2.01	2,498
Nasdaq	6,420	(25.77)	6,446

Fixed Income Sector Performance



Source: Bloomberg



Economy

Fed's Williams Says 2.5% Funds Rate the 'New Normal':

- 🏠 Federal Reserve Bank of San Francisco President John Williams said he expects "gradual rate increases" over the next couple of years, with one possibly as early as December.
 - ➔ "The pace at which that happens and exactly the contour of that will depend on how the economy progresses," Williams told reporters Friday in Zurich. "My own view is that 2.5 percent is about the new normal" for the Federal Funds rate.
 - ➔ The U.S. central bank announced plans earlier this week to begin slowly shrinking its \$4.5 trillion balance sheet in October and published forecasts showing that officials still expect to raise interest rates for a third time in 2017, with three more quarter-point hikes penciled in next year.

New Fed Gauge Shows Fastest Inflation Since 2007:

- 🌐 The Federal Reserve Bank of New York's first released its new measure to track underlying inflation on Friday. The appropriately named 'Underlying Inflation Gauge' shows prices behaving quite differently from traditional indexes this year.
 - ➔ The UIG's broad measure registered a 2.74 percent reading for August, the highest since November 2007, according to historical data from the Fed. That compares with a 1.9 percent annual change in the Labor Department's consumer-price index and a 1.4 percent July gain in the preferred gauge of Fed policy makers, which matched the lowest since September 2016.
- 🌐 Why the gap? The UIG incorporates dozens of additional variables outside of prices, including the unemployment rate, stock prices, bond yields and purchasing managers' indexes. A second, "prices-only" version of the UIG is derived from CPI data. That gauge advanced 2.2 percent in August.
 - ➔ The New York Fed says the UIG "has shown more accurate forecasts of inflation compared with core inflation measures," and the two UIG measures indicate that "trend CPI inflation" is currently in a range of 2.2 percent to 2.7 percent.

Underlying Inflation Gauge – New Measure of Trend Inflation

■ UIG: Full data set measure ■ UIG: Prices-only measure ■ CPI Source: Federal Reserve Bank of New York





Fixed Income

Muni Yields Rise to 2-Month High:

- 🏠 Municipal bond values fell for the eighth day as yields on benchmark 10-year notes increased 2.1 basis points to 1.926 percent, the highest in two months. Also, the gap between yields on short-term and long-term securities widened.
 - ➡ Yields of securities due in 10 years on Bloomberg's high grade benchmark municipal yield curve rose to the highest since July 17th.
 - ➡ Debt issued by U.S. states and local governments maturing in 10 years yields 85.033 percent of Treasuries, compared with 85.968 percent a month ago. Year-to-date the long-end of the Bloomberg Barclays Municipal Long Bond Index has returned 6.47 percent, besting all shorter maturity indexes.
 - ➡ Municipalities plan to sell \$11.7 billion of bonds in the next month, while redemptions and announced calls total \$21.4 billion.

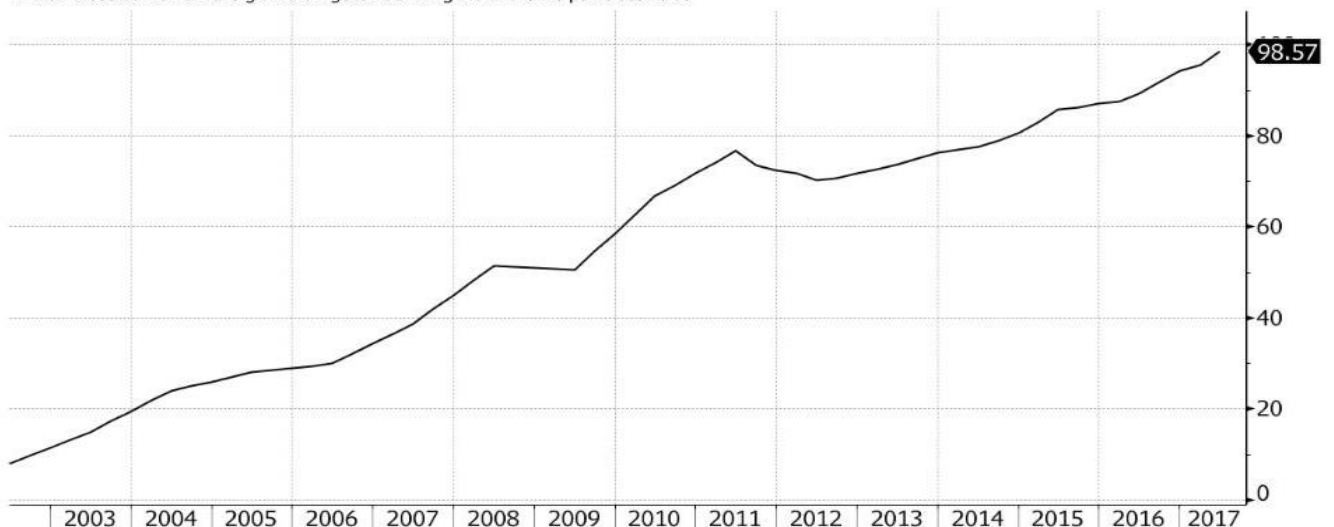
Foreign Buyers Boost Holdings of Muni Bonds to Record:

- 🏠 Foreign investors increased their holdings of U.S. state and local government bonds to a record \$98.6 billion during the second quarter as low interest rates overseas left them searching global markets for higher yields.
 - ➡ Benchmark 10-year securities are yielding about 1.9 percent compared with around 0.01 percent for Japanese government debt.
 - ➡ The bondholders from abroad added \$3.1 billion to their municipal-debt portfolios in the three months ending June 30th, according to data released Thursday by the Federal Reserve. They have now expanded their investments in the bonds every quarter for the past five years.

Foreign Funds Continue Buying Municipal Debt

Source: Bloomberg

■ FOF Rest of World Foreign Holdings of US Long Term Municipal Securities





Equities

Indexes:



- ❖ **DJIA** – 22,328 current ▲ 0.4% the past week
- ❖ **S&P 500** – 2,500 current ▲ 0.1% the past week
- ❖ **Nasdaq** – 6,420 current ▼ -0.4% the past week

Equity Updates:

- 📊 Solar Companies - Most solar stocks fell or were little changed after the U.S. International Trade Commission determined that imported solar cells and panels had harmed U.S. solar manufacturers.
 - ➔ One company was up significantly on the news: First Solar Inc. The reason: its panel technology would be excluded should President Donald Trump impose tariffs. He may decide as early as November.
 - ➔ First Solar was up 6.9 percent Friday afternoon to \$52.10 after earlier rising 8.7 percent. Rooftop solar installer Vivint Solar Inc., meanwhile, was down 4.1 percent to \$4.08.
- 📊 Finish Line – Shares were up 4.3%, paring earlier gains of as much as 12%. Analysts continue to study 2Q results that were in line with Finish Line's disappointing 2Q preannouncement on August 28th stating sharply reduced guidance.
 - ➔ Shares initially traded down as much 12%, but turned positive after the conference call ended, during which management said it expected gross margin to show improvement in 4Q.
- 📊 Health Insurers - Health insurers fell Friday as the Brookings Institution said at least 21m people would lose health care coverage under the latest GOP bill to replace the Affordable Care Act. The S&P 1500 Managed Health Care Index (S15MANH) dropped 2.3%, led by UnitedHealth, down 3.4%.
 - ➔ Brookings said the number "likely underestimates" the reduction and excludes potential losses as states struggle to set up their own health care systems.
 - ➔ S&P 1500 Managed Health Care is currently up 22% year to date.

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