



# Carty & Company, Inc.

## Weekly Market Update – December 2017, Week 1

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### Compare Rates

US Treasuries			
Maturity	Yield	Change	1 Month Ago
3	1.88	0.14	1.74
5	2.12	0.11	2.01
7	2.27	0.07	2.20
10	2.36	0.01	2.35
30	2.76	(0.06)	2.82

Agencies			
Maturity	Yield	Change	1 Month Ago
3	1.90	0.15	1.75
5	2.04	0.14	1.90
7	2.35	0.08	2.27
10	2.73	0.02	2.71
25	2.88	(0.08)	2.96

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	1 Month Ago
1	1.30	0.27	1.03
5	1.74	0.26	1.48
10	2.15	0.12	2.03
15	2.47	0.01	2.45
30	2.76	(0.09)	2.85

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	1 Month Ago
1	2.10	0.44	1.66
5	2.80	0.42	2.39
10	3.46	0.19	3.27
15	3.98	0.02	3.95
30	4.46	(0.14)	4.60

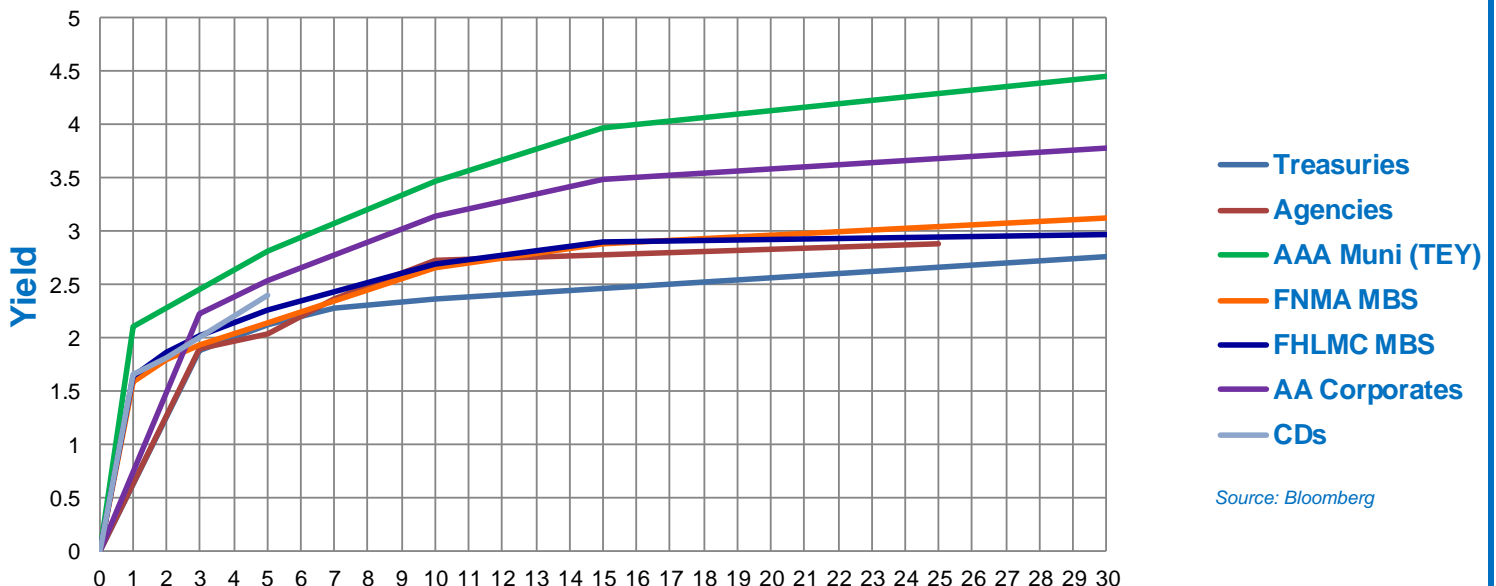
Brokered CDs			
Maturity	Yield	Change	1 Month Ago
1	1.65	0.00	1.65
2	1.81	0.00	1.81
5	2.40	0.00	2.40

Corporate Index (AA)			
Maturity	Yield	Change	1 Month Ago
3	2.23	0.19	2.04
5	2.54	0.17	2.37
10	3.15	0.11	3.04
15	3.48	0.07	3.41
30	3.78	0.01	3.77

MBS - Current Coupon			
FNMA	Yield	Change	1 Month Ago
15yr	2.51	0.12	2.39
30yr	3.01	0.09	2.92
FHLMC	Yield	Change	1 Month Ago
15yr	2.53	0.13	2.40
30yr	3.02	0.10	2.92

Equities			
Index	Current	Change	1 Month Ago
DJIA	24,230	685.59	23,544
S&P 500	2,640	54.94	2,585
Nasdaq	6,848	101.59	6,746

### Fixed Income Sector Performance



Source: Bloomberg

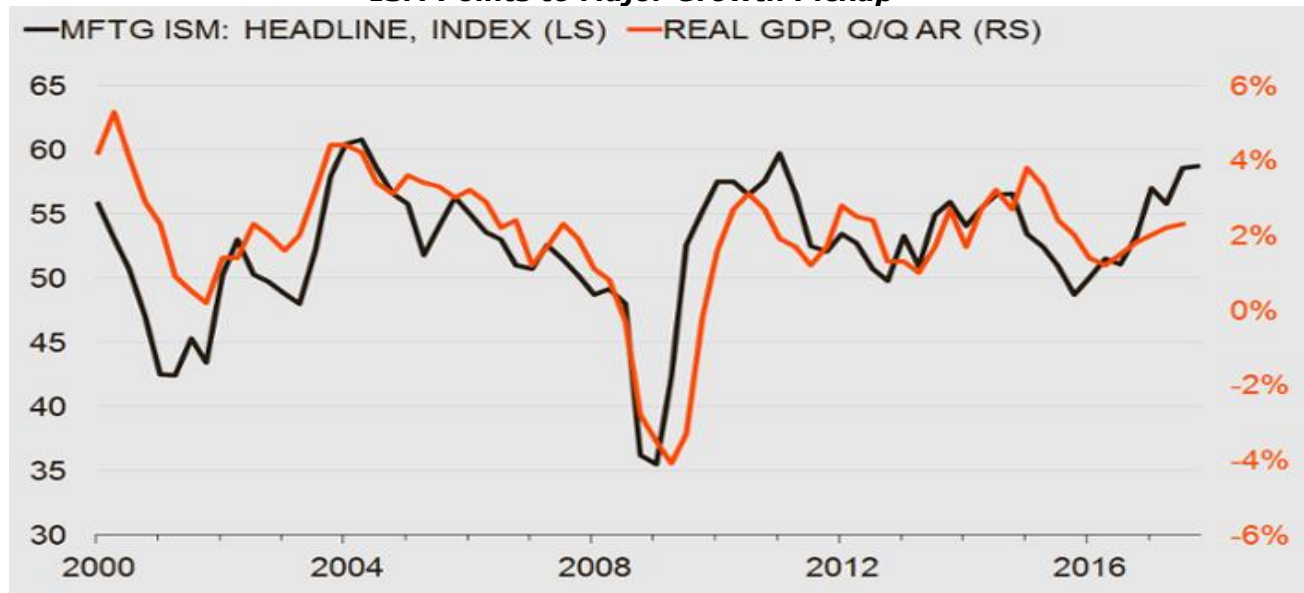


## Manufacturing Increases:

iii The manufacturing ISM has exhibited a pronounced uptrend since the November 2016 presidential election. While the ascent has been choppy, the index headline has risen from territory typically consistent with GDP growth below 2% toward levels associated with real growth closer to 3.5%.

- While growth is expected to accelerate, the ISM appears to be overstating the prospects, potentially due to survey participants becoming overly bullish on prospects for favorable treatment in tax-reform proposals.
- The moderation in new orders and production in October is likely to extend into November, and will in turn allow the headline to drift lower — while still remaining in robust territory.

### *ISM Points to Major Growth Pickup*



Source: ISM, BEA

## Less-Dovish Fed Set to Tighten Policy:

iii The Fed is committed to gradually tightening monetary policy, given that the central bank has fulfilled its maximum employment goal, even while missing its inflation target. The FOMC initiated the balance-sheet runoff in October, effectively putting the program on autopilot before Janet Yellen's term as chair ends in February 2018. The Fed is now firmly on course to institute another rate hike by year-end.

- Many analysts have been surprised by the less-dovish stance assumed by policy makers in 2017. Heightened uncertainty about the composition of the FOMC in 2018 is leading to similar uncertainty about the future pace of monetary-policy normalization.
  - ⓐ At Carty & Company, we believe four rate-hikes in 2018 is a bit of a stretch unless the Fed wants to invert the yield curve and possibly induce a recession.



## Fixed Income

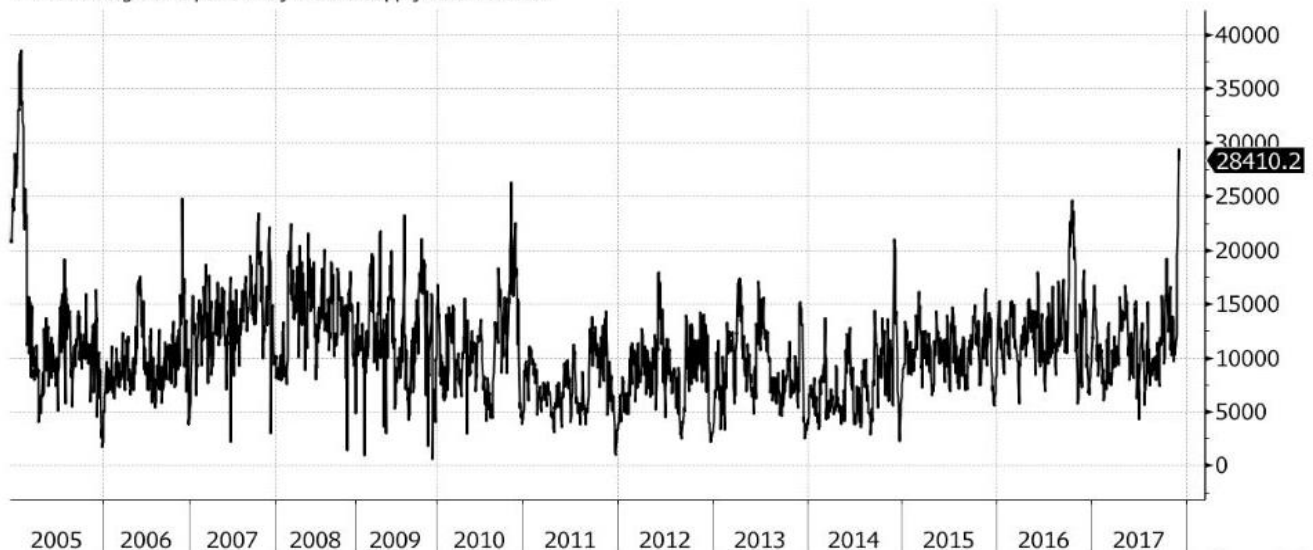
### Municipal Issuers Rush In Before Year-End:

- 🏠 In the rush to borrow before the Republican tax bill reshapes the debt market, states and municipalities are paying up. The biggest spree of debt issuance in more than a decade has pushed up borrowing costs and eroded returns in the \$3.8 trillion municipal-debt market.
- ➡ The flurry is so dense it's threatening to become the biggest month of issuance in history, surpassing December 1985 when almost \$55 billion was sold ahead of the Reagan-era tax reform. For now, visible supply for next month sits at \$28 billion. That metric typically captures about half the eventual total, which may well beat the record.
  - ➡ The rush to market has forced tax-exempt yields higher. Since the House tax bill was introduced, the 10-year triple-A Bloomberg BVAL benchmark has climbed by a quarter point. Munis are now the cheapest they've been relative to Treasuries since March, with 30-year tax-exempts yielding almost 103 percent of comparable yielding Treasuries.

### **Municipal Deal Pipeline the Largest since 2005**

Source: Bloomberg

■ Bloomberg Municipal 30 Day Visible Supply Volume Total



### 10-Year U.S. Treasury Yield Restores Uptrend:

- 🌐 UST 10-year yield has reasserted its upward trajectory from September following the resolution of a sideways/holding pattern in place since late October. However, yields did pull back on Friday with news that Michael Flynn may testify against President Trump in the Russian probe.
- ➡ The 2/10 curve chart dynamics point to bear-steepening risks with crossover in momentum. The reappearance of important long-term exhaustion is also reinforcing the tactical outlook for wider spreads.



## Equities

### Indexes:



- ❖ **DJIA** – 24,230 current ▲ 2.9% the past month
- ❖ **S&P 500** – 2,585 current ▲ 2.1% the past month
- ❖ **Nasdaq** – 6,746 current ▲ 1.5% the past month

### Alarm Bells Sounding for Momentum Stocks:

- ✚ One of the most lucrative strategies in stock investing this year may be heading for a pause. Investors betting on momentum, or the continuation of existing market trends, have made a killing thus far in 2017, with indexes tracking the strategy in the U.S. and Europe at or near record highs.
  - ➔ Now, firms including Morgan Stanley and JPMorgan Chase & Co. are predicting that the trade -- akin to piling into technology stocks, this year's top stock-market performers -- could be getting stretched.
  - ➔ Their calls come at a time when rotation between stock winners and laggards in the regions are becoming more frequent. In the latest example last Wednesday, media, transportation and household-products companies in the U.S. -- among the worst-performing sectors in the S&P 500 Index this year -- rallied amid a tech rout.
  - ➔ The trend played out similarly in Europe, where the tech sector was among the biggest industry losers in November, while the underperforming real estate sector gained the most.
    - Ⓜ Momentum stocks' growth this so far year has been staggering. The MSCI USA Momentum Index is heading for its biggest yearly gain since 1999, while its European peer has climbed almost four times as much as last year in percentage terms.
    - Ⓜ Fund managers who are overweight momentum and growth stocks may want to consider taking a defensive approach to tax reform by buying near-term protection.

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