



Carty & Company, Inc.

Weekly Market Update – December 2017, Week 2

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Compare Rates

US Treasuries			
Maturity	Yield	Change	1 Week Ago
3	1.91	0.03	1.88
5	2.14	0.02	2.12
7	2.29	0.02	2.27
10	2.38	0.02	2.36
30	2.77	0.01	2.76

Agencies			
Maturity	Yield	Change	1 Week Ago
3	1.90	0.00	1.90
5	2.07	0.03	2.04
7	2.37	0.02	2.35
10	2.76	0.03	2.73
25	2.90	0.02	2.88

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	1 Week Ago
1	1.26	(0.04)	1.30
5	1.66	(0.08)	1.74
10	1.99	(0.16)	2.15
15	2.31	(0.16)	2.47
30	2.62	(0.14)	2.76

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	1 Week Ago
1	2.03	(0.07)	2.10
5	2.68	(0.13)	2.81
10	3.20	(0.26)	3.47
15	3.72	(0.26)	3.98
30	4.23	(0.22)	4.45

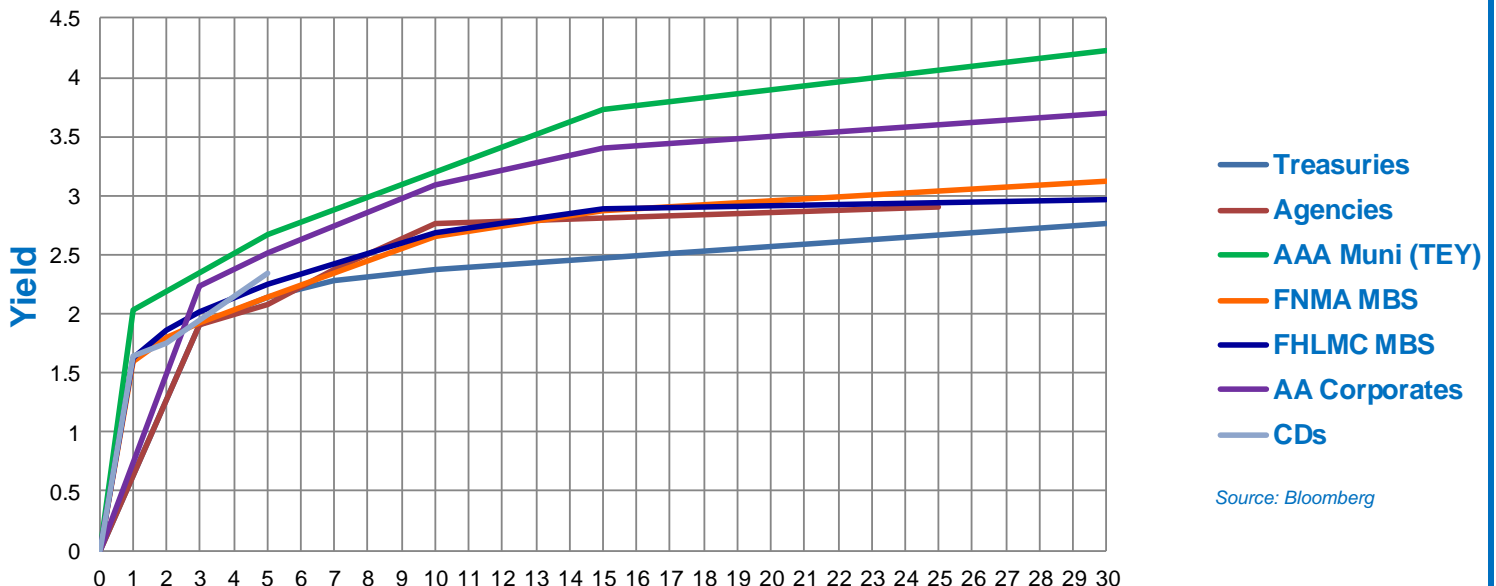
Brokered CDs			
Maturity	Yield	Change	1 Week Ago
1	1.65	0.00	1.65
2	1.75	(0.06)	1.81
5	2.35	(0.05)	2.40

Corporate Index (AA)			
Maturity	Yield	Change	1 Week Ago
3	2.23	(0.00)	2.23
5	2.51	(0.03)	2.54
10	3.09	(0.06)	3.15
15	3.40	(0.08)	3.48
30	3.70	(0.08)	3.78

MBS - Current Coupon			
FNMA	Yield	Change	1 Week Ago
15yr	2.49	(0.02)	2.51
30yr	3.01	0.00	3.01
FHLMC	Yield	Change	1 Week Ago
15yr	2.50	(0.03)	2.53
30yr	3.02	0.00	3.02

Equities			
Index	Current	Change	1 Week Ago
DJIA	24,301	70.86	24,230
S&P 500	2,649	8.94	2,640
Nasdaq	6,836	(11.95)	6,848

Fixed Income Sector Performance



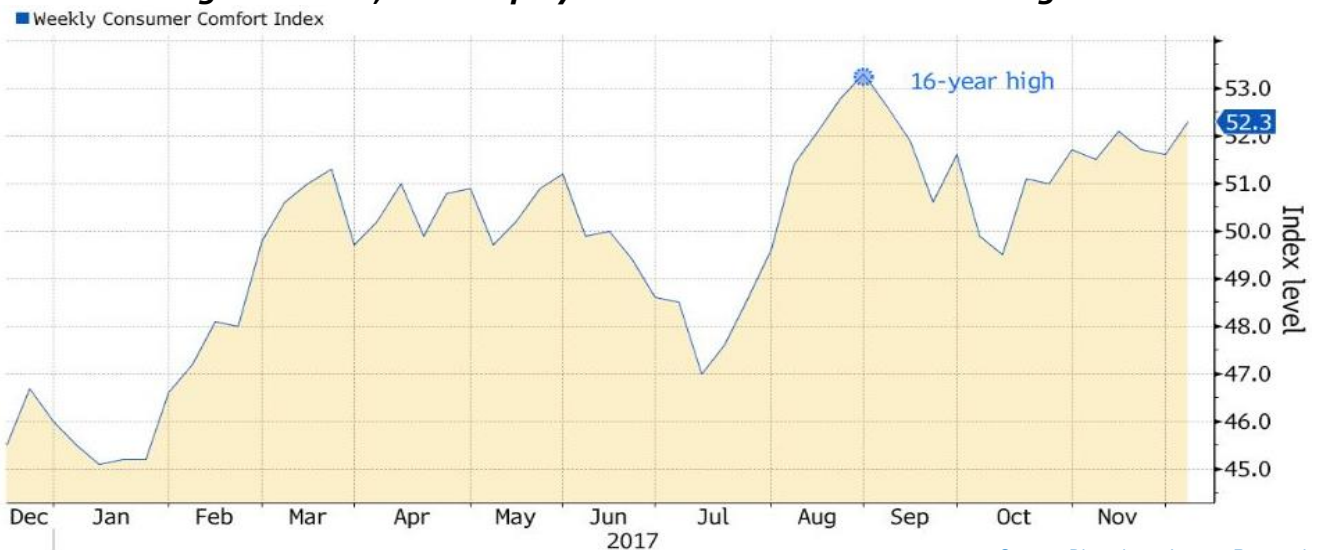
Source: Bloomberg



Consumer Comfort Rises to 13-Week High:

- Improved sentiment about the buying climate and personal finances helped carry household optimism to a 13-week high, Bloomberg Consumer Comfort Index figures showed Thursday.
 - Consumer sentiment is closing in on its best year since 2001. Stocks at all-time highs, unemployment near a 17-year low and firmer economic growth are leading to brighter views of personal finances and the economy.
 - One sign of the stock market's effect on optimism was that confidence among those who are unemployed, which includes retirees, reached a new 16-year high as the values of retirement accounts climbed. Relatively limited inflation has also laid the ground for rosier attitudes about the buying climate, indicating firm spending during the holiday-shopping season.

Higher Stocks, Low Employment Put Index near Recent High



Source: Bloomberg, Langer Research

Non-Farm Payrolls Surprise Higher:

- The U.S. labor market has moved past the previous couple months of hurricane disruptions and returned to its mean trajectory: solid hiring but tepid wage gains that suggest things aren't as tight as the unemployment rate suggests.
 - Payrolls rose 228,000 in November, above the median economist estimate of 195,000, Labor Department figures showed Friday. Average hourly earnings increased 2.5 percent from a year earlier, less than the 2.7 percent projection, and October's figures were revised lower. The jobless rate held at 4.1 percent, the lowest since late 2000.
 - While the job market remains a safeguard for the economy and investors see a Federal Reserve interest-rate hike next week as a near-certainty, the lack of a sustained acceleration in wages remains a puzzle that could factor into the pace of increases in '18.



Fixed Income

Municipal Market Rallies Most Since U.S. Downgrade:

- 🏠 In the municipal-bond market, investors are buying now while supplies last.
 - ➡ Municipalities are rushing to sell tens of billions of dollars of securities before Congress enacts legislation that would dramatically cut the size of the tax-exempt bond market after this year. As a result prices are rallying, sending yields on benchmark ten-year debt down by the most since S&P downgraded the U.S. in August of 2011. On Wednesday, those yields dropped 0.09 percentage points to 1.95 percent, according to data compiled by Bloomberg.
 - ➡ That's defying the initial expectations of analysts and investors that a potentially record-setting borrowing wave would depress prices through the end of the year. But such short-term considerations have been overridden by the prospect that new sales of tax-exempt debt could fall by a third or more starting next year, which would made the securities more valuable to investors.
 - ➡ The tax-cut bills that were passed by the House and the Senate would strip the tax-exemption from bonds in so-called advance refundings, a technique that governments used to refinance tens of billions of dollars in debt last year alone. The House version would also prevent hospitals, airports and other private borrowers from raising money in the tax-exempt market. The two bills are now in the process of being reconciled.

Municipal Yields Tumble in Market's Best 5-Day Stretch Since 2011

■ BVAL 10-year AAA muni yield





Equities

Indexes:



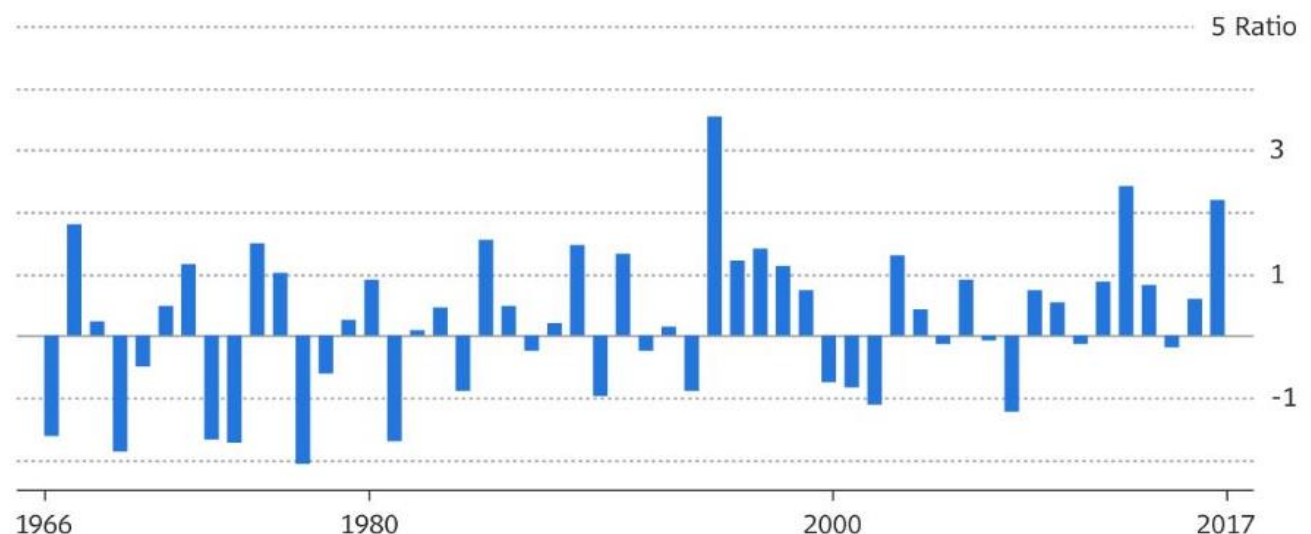
- ❖ **DJIA** – 24,301 current ▲ 0.3% the past month
- ❖ **S&P 500** – 2,649 current ▲ 0.3% the past month
- ❖ **Nasdaq** – 6,836 current ▼ -0.2% the past month

Stocks Having One of the Best Years in a Half Century:

📊 The collapse in volatility and mid-year slump in bond yields has helped investors earn the third biggest risk-adjusted return from U.S. equities in 50 years, according to Bloomberg Sharpe ratio calculations. The measure tracks stock returns relative to Treasuries and volatility.

- ➡ U.S. stocks have hit new highs this year as a bull market that started in March 2009 is poised to become the longest on record. Treasury yields are ending the year little changed and stock volatility is close to historic lows. Investor enthusiasm for technology shares and optimism over the potential benefits of U.S. tax reform have helped drive returns.
- Ⓜ The high Sharpe ratio is unlikely to be repeated given real rates are likely to increase in 2018. Equity returns may still be positive, but a lower Sharpe ratio in 2018 is likely.

U.S. Stocks Generate 3rd Largest Risk-Adjusted Return in 50 Years



Important Information Regarding This Report

Source: Bloomberg

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