Carty & Company, Inc.

Weekly Market Update – February 2018, Week 1

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Compare Rates

US Treasuries			
Maturity	Yield	Change	1 Week Ago
3	2.31	0.04	2.27
5	2.58	0.07	2.51
7	2.76	0.12	2.64
10	2.84	0.13	2.71
30	3.08	0.13	2.95

Agencies			
Maturity	Yield	Change	1 Week Ago
3	2.21	0.01	2.20
5	2.44	0.04	2.40
7	2.82	0.13	2.69
10	3.18	0.13	3.05
25	3.22	0.15	3.07

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	1 Week Ago
1	1.41	(0.02)	1.43
5	1.91	0.14	1.77
10	2.47	0.21	2.26
15	2.82	0.19	2.63
30	3.04	0.16	2.88

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	1 Week Ago
1	2.28	(0.03)	2.31
5	3.07	0.22	2.85
10	3.98	0.34	3.65
15	4.55	0.31	4.24
30	4.90	0.25	4.65

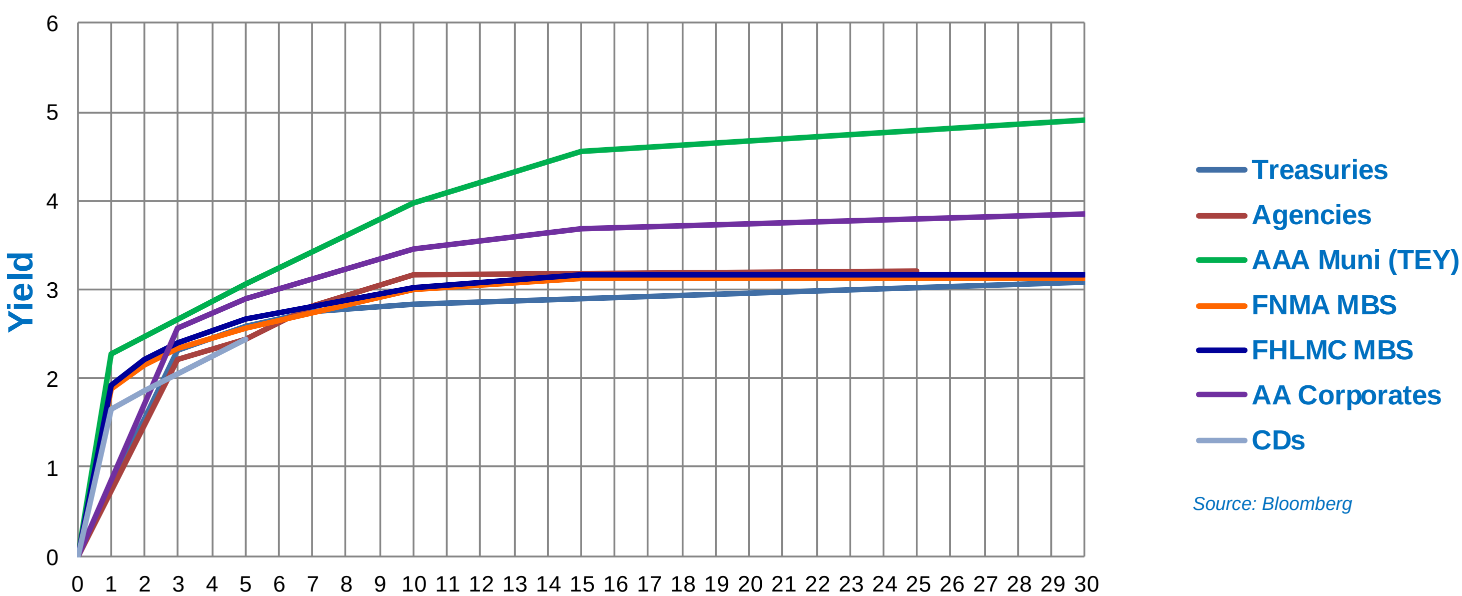
Brokered CDs			
Maturity	Yield	Change	1 Week Ago
1	1.65	0.00	1.65
2	1.85	0.00	1.85
5	2.45	0.00	2.45

Corporate Index (AA)			
Maturity	Yield	Change	1 Week Ago
3	2.57	0.06	2.51
5	2.89	0.10	2.79
10	3.46	0.13	3.33
15	3.69	0.13	3.56
30	3.86	0.11	3.75

MBS - Current Coupon			
FNMA	Yield	Change	1 Week Ago
15yr	2.90	0.19	2.71
30yr	3.38	0.21	3.17
FHLMC	Yield	Change	1 Week Ago
15yr	2.92	0.19	2.73
30yr	3.39	0.20	3.19

Equities			
Index	Current	Change	1 Week Ago
DJIA	25,429	(1122.83)	26,552
S&P 500	2,762	(106.89)	2,869
Nasdaq	7,241	(244.05)	7,485

Fixed Income Sector Performance



Source: Bloomberg

January U.S. Manufacturing Strongest Since 2004:

- U.S. factories expanded more than forecast in January and near the fastest pace in more than 13 years, indicating manufacturing is still powering ahead at the start of 2018, Institute for Supply Management data showed Thursday.
    - The January reading, which exceeded the 57.4 average for 2017, shows manufacturing is benefiting from solid consumer spending and business investment. What's more, the measure of exports advanced to a near seven-year high, underscoring improving overseas markets.
    - Rising demand in the U.S. is generating the upward push in prices for raw materials. In addition to energy-related costs such as those for crude oil and natural gas, purchasing managers say companies are also paying more for metals including steel, aluminum, and copper, according to Timothy Fiore, chairman of ISM's factory survey committee. The ISM's measure of prices paid increased to the highest level since May 2011, with all 18 manufacturing industries reporting higher materials costs.
    - In a sign factories are challenged by elevated demand, the ISM's measure of supplier deliveries climbed to a three-month high and its backlogs index rose to the highest level since September.
    - 14 of 18 industries reported growth in January, including textiles, fabricated metals and plastics. Printing, wood products, furniture and nonmetallic minerals industries contracted.

Source: Institute for Supply Management

Orders, Exports Powering U.S. Manufacturing Activity

Municipal Yields Rise to 10-Month High:

- Municipal bond yields rose sharply last week as yields on benchmark 10-year notes increased 13.4 basis points to 2.47 percent, the highest level in more than 10 months. Institutional investors offered $670 million through bids-wanted lists. 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 March 20, 2017. The yield curve steepened to 140.5 basis points, the widest since November 28th.
  - Debt issued by U.S. states and local governments maturing in 10 years yields 87.4 percent of Treasuries, compared with 83.6 percent a month ago. The rate for municipalities to swap to 10-year fixed- rate from floating-rate liabilities widened to 2.2 percent from 2.1 percent.
  - Municipalities plan to sell $6.74 billion of bonds in the next month, while redemptions and announced calls total $16.9 billion. Supply figures exclude derivatives and variable-rate debt.

January Treasury Yields Jump Most Since 2009:

- The U.S. Treasury market is providing investors a yield bump of historic proportions to start 2018. During the first month of the year, Treasury yields jumped more than any January since 2009, when traders were bracing for a ramp-up in government borrowing to combat the recession.
  - From a price stand point, January was the biggest setback for any month since November 2016. Ten-year yields have surged about 43 basis points in January, reaching 2.84 percent, the highest level since January 2014.
  - Part of the spike came as traders anticipated more supply to accommodate a growing budget deficit and the Federal Reserve's move to shrink its balance sheet. The Treasury fulfilled those expectations Wednesday, announcing plans to boost auction sizes.
  - The U.S. central bank isn't alone in removing accommodation. The European Central Bank has reduced its monthly asset-purchase target and hasn't decided whether to extend buying after September.
    - In our opinion, the selloff has been driven primarily by expectations and sentiment rather than evidence of above-trend economic growth or higher inflation.

Equities

Indexes:

- **DJIA –** 26,552 current ▼ 4.2% the past week
- **S&P 500 –** 2,869 current ▼ 3.7% the past week
- **Nasdaq –** 7,485 current ▼ 3.3% the past week

Dow Tumbles 665 Points on Friday:

- The Dow Jones Industrial Average tumbled 665 points Friday in the biggest plunge since June 2016, as the worsening bond rout stirred angst that the Federal Reserve will accelerate its rate-hike schedule.
  - Solid jobs data that underscored the strength of the economy sent bond bulls scurrying and rattled equity investors who haven't seen a week this bad in two years. The tandem selling accelerated after Dallas Fed President Robert Kaplan suggested officials may need to hike more than three times this year to cool the advance.
  - There was nowhere to hide on the stock market, with all 11 S&P 500 sectors lower. The index's five-day rout reached 3.7 percent -- marking its first pullback of at least that much in a record 404 days. Energy shares sank 4.1 percent as earnings disappointed and crude slumped. The tech selloff worsened, sending the Nasdaq 100 Index lower by 2.1 percent Friday. Its weekly rout hit 3.3 percent, most since February 2006. Not even a record rally at Amazon.com Inc. could rescue the measure, as the world's biggest company, Apple Inc. hit its lowest since October.

DJIA Falls Most Since June 2016