Carty & Company, Inc.

Weekly Market Update – January 2018, Week 3

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Compare Rates

US Treasuries			
Maturity	Yield	Change	1 Month Ago
3	2.19	0.24	1.95
5	2.43	0.27	2.16
7	2.56	0.28	2.28
10	2.64	0.28	2.36
30	2.91	0.22	2.69

Agencies			
Maturity	Yield	Change	1 Month Ago
3	2.12	0.16	1.96
5	2.30	0.19	2.11
7	2.60	0.23	2.37
10	3.00	0.26	2.74
25	3.05	0.21	2.84

Municipal G.O. (AAA) MMD			
Maturity	Yield	Change	1 Month Ago
1	1.46	0.21	1.25
5	1.74	0.10	1.64
10	2.15	0.13	2.02
15	2.51	0.15	2.36
30	2.80	0.14	2.66

Municipal G.O. (AAA) - TEY @ 38%			
Maturity	Yield	Change	1 Month Ago
1	2.36	0.34	2.02
5	2.81	0.16	2.65
10	3.46	0.20	3.26
15	4.05	0.24	3.81
30	4.51	0.22	4.29

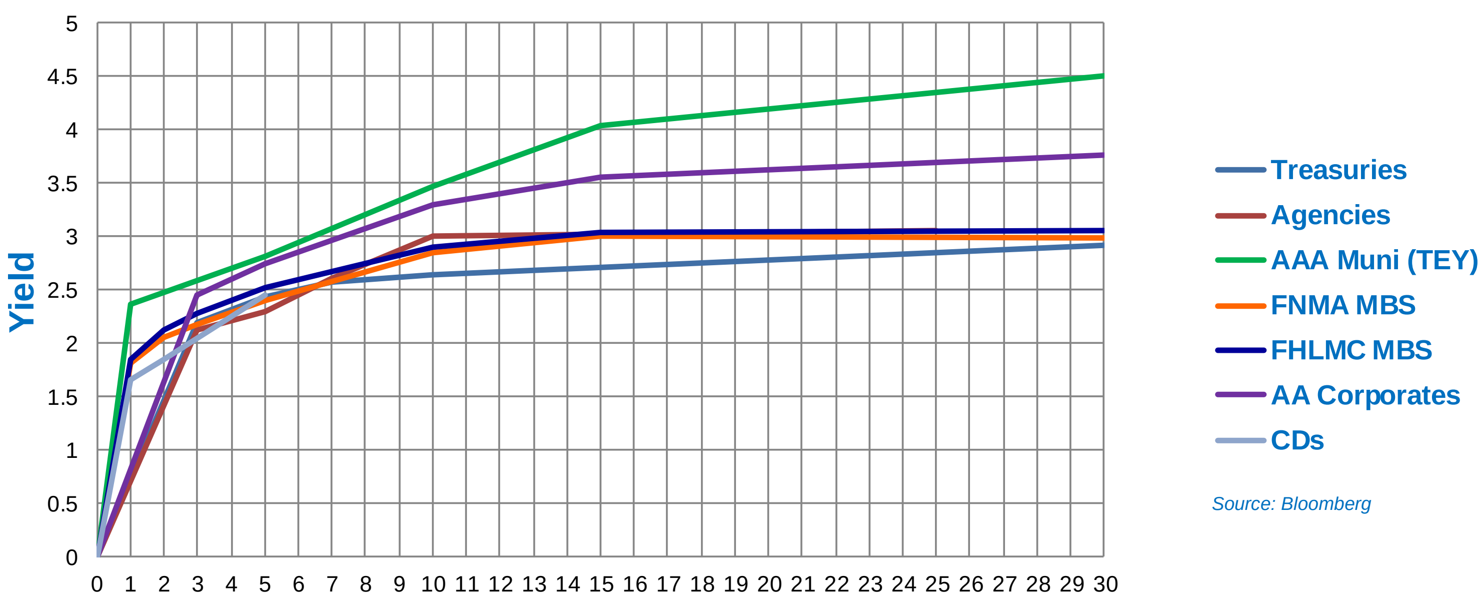
Brokered CDs			
Maturity	Yield	Change	1 Month Ago
1	1.65	0.00	1.65
2	1.85	0.10	1.75
5	2.45	0.10	2.35

Corporate Index (AA)			
Maturity	Yield	Change	1 Month Ago
3	2.45	0.22	2.23
5	2.74	0.23	2.51
10	3.30	0.24	3.06
15	3.55	0.20	3.35
30	3.76	0.14	3.62

MBS - Current Coupon			
FNMA	Yield	Change	1 Month Ago
15yr	2.71	0.21	2.50
30yr	3.17	0.27	2.90
FHLMC	Yield	Change	1 Month Ago
15yr	2.73	0.20	2.53
30yr	3.19	0.29	2.90

Equities			
Index	Current	Change	1 Month Ago
DJIA	26,009	1337.79	24,671
S&P 500	2,805	126.85	2,678
Nasdaq	7,330	391.14	6,939

Fixed Income Sector Performance



Source: Bloomberg

Economy

Manufacturing Surges:

- U.S. industrial production handily topped expectations in December, rising 0.9% with consensus only projecting a 0.5% increase. While much of this dramatic rise stemmed from mining/mineral extraction and utility output, substantial net upward revisions for October-November revealed improving prospects more broadly for the manufacturing sector.
  - Manufacturing output ended the year at a pace last sustained in mid-2012. The rising animal spirits were fueled by a combination of enthusiasm for tax cuts/reforms as well as in reaction to improving domestic and external growth prospects. The so-called "soft data," or sentiment metrics, has been elevated for long enough that it is supporting an improvement in the underlying "hard data" measuring actual activity.
  - The improving momentum heading into year-end bodes well for a strong start to 2018. While residual seasonality has resulted in disappointing economic performance in 1Q (relative to trend) for much of the past decade, we expect the data to avoid such an outcome in 2018. Fiscal stimulus delivered by the tax cuts should galvanize the economy, particularly during the beginning of 2018.
  - While payroll increases have slowed over the past few years as the labor market tightens, economists say job gains above 100,000 a month are enough to put downward pressure on the jobless rate.

Inflation Expectations Build:

- Federal Reserve policy makers are openly voicing their willingness to accept above-target inflation even as price pressures are beginning to build.
  - St. Louis Fed President James Bullard even went so far as to suggest on January 10th that policy makers should consider shooting for inflation above 2 percent for an extended period to make up for its below-target performance over the past five years.
  - After what Fed Chair Janet Yellen has described as a mysterious decline last year, inflation is showing signs of inching back up. The core measure the central bank favors has risen to 1.5 percent in November from 1.3 percent in August. Inflation expectations in the Treasury bond market are also on the rise.
  - The chatter about inflation breaching its target is taking place against the backdrop of a brewing debate among policy makers about the continued usefulness of the 2 percent objective. One idea that’s been mooted: Adopting a price level target instead.
    - Under this approach, the Fed would commit to making sure prices rise by an average 2 percent per year for an extended period. If inflation ran below target for a while, policy makers would seek to make up for that by engineering commensurate price increases above 2 percent. And vice versa.

10yr Treasury Yield Rises to Highest Level Since 2014:

The benchmark Treasury yield rose to the highest level in more than three years, extending a selloff in the world's largest-debt market that began last September.

- The 10-year yield climbed to as high as 2.6407 percent Friday, a level unseen since September 2014. Flows were skewed toward selling, with dip-buying demand muted given recent price action and decent volumes in cash and futures.
- Yields on U.S. debt have been rising on the prospects of more Federal Reserve rate hikes and increased government debt issuance to finance America's widening budget deficit. President Trump's plan to release his infrastructure proposal as early as January and a rally in oil prices to a three-year high have also boosted growth and inflation expectations.
- The yield advance on Friday came as the House passed a spending bill to avoid a U.S. government shutdown, although Senate Democrats said they have the votes to block the measure.
- The two-year U.S. Treasury yield has been climbing since September and on January 12th topped 2 percent for the first time since 2008, reflecting expectations for Fed policy tightening. Longer-term yields are on a gentler slope, a function of inflation struggling to meet the Fed's 2 percent target.

U.S. Yields Rise as Higher Oil Supports Inflation Expectations

Source: Bloomberg

Equities

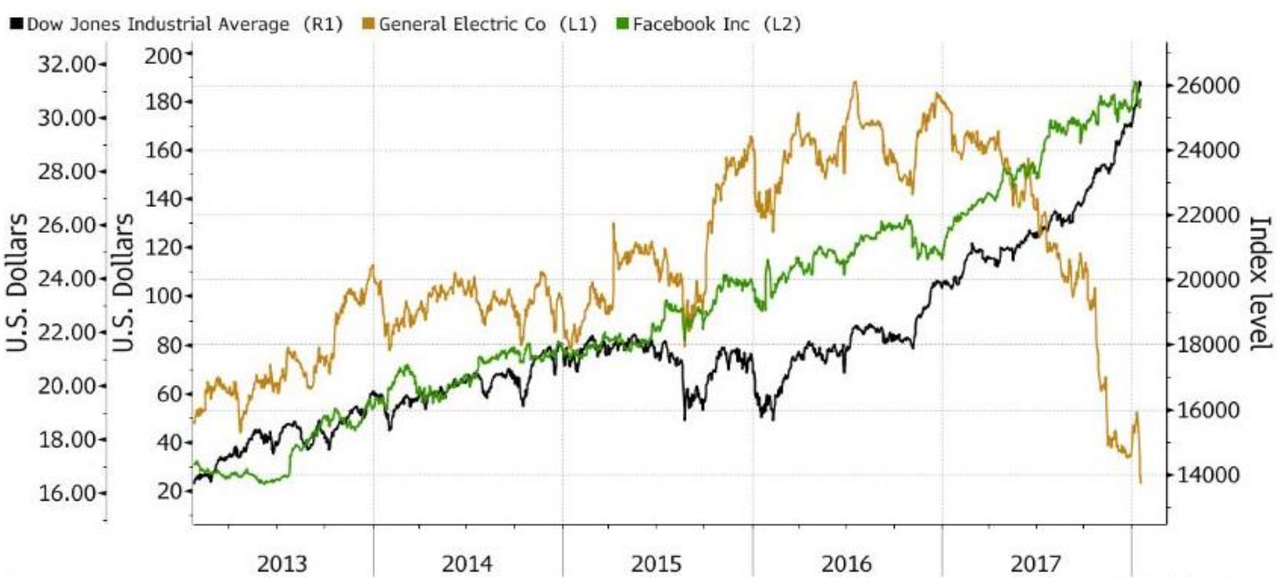
Indexes:

- ❖ **DJIA –** 26,009 current ▲ 5.4% the past month
- ❖ **S&P 500 –** 2,805 current ▲ 4.7% the past month
- ❖ **Nasdaq –** 7,330 current ▲ 5.6% the past month

Facebook to Replace GE in DJIA?:

- General Electric's worst week in eight years is rekindling an age-old debate, namely, how bad can things get before your status in the Dow Jones Industrial Average is threatened? While kicking out the longest-standing member would not come easily for the gauge's overseers, removal could pave the way for another whose time, many say, has come.
  - ➲ That's Facebook Inc., whose dominance in social media has made it one of the largest publicly traded companies in the world. Unlike other DJIA omissions such as Google parent Alphabet Inc. or Amazon.com Inc., whose $1,000 price tag is too high for the price-weighted average, Facebook, at $181, would fit relatively comfortably in the range of existing members.

Facebook Seen Among Candidates to Join DJIA Should GE Exit



Source: Bloomberg