RAYMOND JAMES

November 21st – 25th

Fixed Income Weekly Primer

DAY	EVENT	PERIOD	SURVEY	PRIOR
Tues	Existing Home Sales	Oct	5.44mm	5.47mm
Wed	Durable Goods Orders	Oct	1.50%	-0.30%
Wed	FOMC Meeting Minutes	Nov	-	-
Wed	Markit US Manufacturing PMI	Nov	53.50	53.40
Wed	New Home Sales	Oct	590k	593k

NOTE

Lots of economic data on the docket ahead of the holiday. Markets will pay particular attention to the Fed's meeting notes from November, even though a near certain December hike is already in the cards. ***Reminder: bond markets are closed all day Thursday and will close at 2pm Eastern on Friday.***

Global Bonds Post Biggest Move in Quarter Century (**Bloomberg**)
Treasuries Edge higher As Selling Pressure Relents (**MarketWatch**)
Fixed Income Market Commentary by Kevin Giddis (**RaymondJames.com)**

Raymond James Bond Market Commentary
Weekly Rates, **Index Monitor**, and **Chartbook**
External Links: **Investing In Bonds** and **MSRB**

TREASURIES

Treasury yields continue to grind higher (lower bond prices) as markets continue their attempt to reprice everything from inflation, deficit/infrastructure spending, tax cuts (personal and corporate), international trade, GDP growth, job creation and even the forward path of monetary policy. Markets are now pricing in a nearly 100% likelihood the Fed will raise rates in December by another 25 basis points (0.25%), with this already being "baked into the cake". Inflation expectations have jumped significantly, with the 5y5y forward rate (aka the 5yr inflation expectation beginning in five years) shot up to ~2.50%, which is well above the Fed's longer-term target of 2.00%. As a result, last week's 10y TIPS auction drew a yield of 0.369% with a bid-to-cover of 2.39%, the largest demand in the last ten auctions. ~73% was sold to "indirect" bidders, a group that includes foreign central banks and mutual funds, which is much higher than the long-term average of ~66%. The 10y breakeven rate sits at ~2%, so the buyer of a 10y TIPS securities would need to see *at least* an average of 2% over the course of ten years to be better off than buying a nominal 10y Treasury note.

Meanwhile, Treasury markets are showing signs of firming up in early Monday trading. However, over the last few trading sessions we've seen a few mornings begin with lower yields only to reverse-course as they day went on. Behind the scenes, USD hedged 10y Treasury yields for JPY and EUR investors has now turned positive again for the first time in months. This could create additional demand for US Treasuries as rates in Japan and Europe remain depressed and/or negative. This week the marketplace will need to sponge up $26b of 2yr notes alongside $28b of 5yr and $34b of 7yr notes. Strength/weakness in these auctions will act as a barometer and could driver yields lower/higher.

BROKERED CDs

The number of banks in the market went up by 12, to a total of 92. Line items also increased, up by 32 offerings, for a total of 226. We are able to build a $13.25mm ladder in the 3-month to 12-month range which is higher from last week's $12mm. The average yield increased to 0.701% yield from a 0.651%. In the 3-month to 5-year range, we can accommodate $20.25mm. This is significantly higher from last week's $18.5 mm. Here the average yield also increased, to 1.023% from 0.977%. This is the first time we've seen the YTM break the 1% barrier this year. Yields in the brokered CD markets now reflect the recent spike in the US Treasury market (see the table to the right).

MUNICIPALS

Tough week for the municipal market as the market struggled to find its footing and a number of deals were postponed or moved to day-to-day status. Large outflows, especially out of high yield put lots of pressure on spreads. The market is concerned about lower taxes lessening the appeal of tax free income as well as higher interest rates. We have not seen outflows of this proportion since the taper tantrum in 2013. This week will feature a very light calendar.

This week's primary supply totals $700mln, $600mln is negotiated and $100mln is via competitive sales. (See other new issues in our calendar **here**)

Ratios vs. Treasuries widened last week, the 10y spot ended the week at 97% of Treasuries and the 30y spot ended the week at 100% of comparable Treasuries.

Municipal bond funds reported $3bln of net outflows last week, compared with the previous week's $63mln of inflows, the 4 week moving average turned negative at $734mln in outflows. High yield funds reported outflows of $1.59bln. Source: Reuters/Lipper

CORPORATES

Credit markets, like other risk assets in the post-election world, have held up well. The broad 5y CDX index, a measure of credit risk, sits at ~76bp after being as high as 81bp in the direct aftermath of the election. For comparison, this spread hit a high of 125bp in February and has an average of 83bp for the year. New issue volume this week is expected to be low, thanks largely in part to the Thanksgiving holiday. Last week's ~$40 billion of investment grade issuance was the largest in a month and many market participants expect things to get back to normal post-holiday. Year-to-date performance for "spread product" such as corporate credit continues to outperform Treasuries with the broad Citi IG Index still up 5.50% for the year. Spread = performance for 2016: BBB (+7.13%) has outperformed AA (+3.14%) and A-rated (4.32%) peers, with spreads across the ratings spectrum holding up well. For more information please see our Weekly Index Monitor **here**.

	Friday	WEEK AGO	CHANGE	1-YR AGO
Equities (Price Appreciation)				
DJIA	18867.93	18847.66	20.27	17823.81
S&P 500	2181.90	2164.45	17.45	2089.17
Nasdaq	5321.51	5237.11	84.40	5104.92
Treasuries				
1 yr	0.770	0.720	0.050	0.490
2 yr	1.070	0.920	0.150	0.930
5 yr	1.800	1.560	0.240	1.700
10 yr	2.340	2.150	0.190	2.260
30 yr	3.010	2.940	0.070	3.020
Brokered CDs				
3 mo	0.600	0.500	0.100	0.500
6 mo	0.750	0.650	0.100	0.500
1 yr	0.900	0.850	0.050	0.750
2 yr	1.400	1.250	0.150	1.250
3 yr	1.550	1.400	0.150	1.700
4 yr	1.800	1.650	0.150	2.050
5 yr	2.050	1.800	0.250	2.300
10 yr	2.400	2.150	0.250	2.900
Municipal G.O. (AAA) MMD Scale				
1 yr	0.870	0.710	0.160	0.300
2 yr	1.050	0.870	0.180	0.720
5 yr	1.540	1.240	0.300	1.290
10 yr	2.260	1.940	0.320	2.070
30 yr	3.030	2.760	0.270	3.020
Municipal G.O. (AAA) MMD TEY @39.6%				
1 yr	1.440	1.175	0.265	0.497
2 yr	1.738	1.440	0.298	1.192
5 yr	2.550	2.053	0.497	2.136
10 yr	3.742	3.212	0.530	3.427
30 yr	5.017	4.570	0.447	5.000
MBS 30-yr (Current Coupon)				
FNMA	3.062	2.844	0.218	2.982
GNMA	2.861	2.607	0.254	2.847
Corporate Index (A)				
1 yr	1.301	1.207	0.094	0.872
2 yr	1.676	1.525	0.151	1.427
5 yr	2.496	2.265	0.231	2.521
10 yr	3.346	3.125	0.221	3.481
30 yr	4.265	4.155	0.110	4.409
Corporate Index (BBB)				
1 yr	1.620	1.524	0.096	1.356
2 yr	2.058	1.901	0.157	1.940
5 yr	2.985	2.752	0.233	3.131
10 yr	3.929	3.699	0.230	4.214
30 yr	4.846	4.696	0.150	5.031
Corporate CDS Index (bps)				
5 yr	76.27	75.98	0.29	84.58
Other Rates				
3m LIBOR	0.916	0.906	0.011	0.382
Fed Funds*	0.250	0.250	0.000	0.000

(Source: Bloomberg LP, MMD, Raymond James) as of 11/21/16
*Lower bound of range. All entries are percentage (%) unless otherwise noted.

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CDs offer FDIC insurance and a fixed rate of return whereas both principal and yield of investment securities will fluctuate with changes in market conditions. CDs are insured by the Federal Deposit Insurance Corporation (FDIC), an independent agency of the United States government, for up to $250,000 per depositor. The coverage limit refers to the total of all deposits that an account holder(s) has at each FDIC-insured bank.

The DJIA (Dow Jones Industrial Average) is a price-weighted index of 30 significant stocks. The S&P 500 is an index of 500 widely held securities meant to reflect the risk/return characteristics of the large cap universe. The NASDAQ Composite Index is an index of all stocks traded on the NASDAQ over-the-counter market.

The Russell 2000 index is an index of small cap securities which generally involve greater risks. The Markit CDX indices are composed of 125 investment grade entities, and attempt to track credit default swap spreads on these underlying securities. These unmanaged indexes cannot be invested in directly.

GDP(Gross Domestic Product) is the annual total market value of all final goods and services produced domestically by the U.S.

The S&P U.S. Preferred Index measures the performance of a select group of preferred stocks listed on the New York Stock Exchange, NYSE Arca, Inc., NYSE Amex, NASDAQ Global Select Market, NASDAQ Select Market or NASDAQ Capital Market.

The Mortgage Bankers Association Market Composite Index is a measure of mortgage loan application volume.

The Bloomberg U.S. Corporate Bond Indexes are comprised of the "active" (most frequently traded) fixed coupon bonds represented by FINRA TRACE, FINRA's transaction reporting facility that disseminates all over-the-counter secondary market transactions in these public bonds.

The Citigroup Investment Grade Bond Index measures the value of the broad U.S. investment-grade bond market, including over 6,000 U.S. Treasury, government agency, corporate and mortgage-backed securities. All bonds in this index must be investment grade (rated at least BBB- or Baa3), have a maturity of at least one year, and a total value outstanding of at least $200 million.

The Markit CDX North America Investment Grade Index is composed of 125 equally weighted credit default swaps on investment grade entities, distributed among 6 sub-indices: High Volatility, Consumer, Energy, Financial, Industrial, and Technology, Media & Tele-communications. Markit CDX indices roll every 6 months in March & September.

Ratings apply to the company's claims paying ability and not to the safety or performance of an investment. No representation is made as to an insurer's ability to meet its financial commitments.

U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

Taxable Equivalent Yield (TEY) is a method of comparing yields of tax-exempt bonds to those of taxable bonds on a pre-tax basis. TEY is the yield required on a taxable bond to equal the yield of a tax-free bond. It is calculated by dividing the tax-free yield by the reciprocal of the federal tax rate. The highest U.S. tax bracket of 39.6% is used in the illustration in this material. While interest on municipal bonds is generally exempt from federal income tax, it may be subject to the federal alternative minimum tax, or state or local taxes. In addition, certain municipal bonds, such as Build America Bonds (BAB), are issued without a federal tax exemption, which subjects the related interest income to federal income tax.

Municipal Market Data (MMD) AAA generic curves evaluate non-AMT blocks of $2mln or more and assume a 10-year PAR call and a 5.00% coupon structure.

The Bloomberg U.S. municipal general obligation curve includes bonds with an average rating of AZ+ from Moody's and S&P. The option-free yield curve is built using option-adjusted spread models. The yield curve is comprised from contributed pricing from the Municipal Securities Rulemaking Board (MSRB), new issue calendars and other proprietary contributed prices.

A basis point (BP) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

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