Fixed Income Quarterly

Market perspectives from the Fixed Income Solutions group

Two Sides to Every Market

Intuitively, every time there is a buyer, they meet up with the other side… the seller. It gets more complex as the two sided market is resonating rather vociferously lately. It is approaching us from all angles: inflation or deflation? Vaccination effectiveness or virus resurgence? Short-term tactical play or long-term strategic planning? Fully invested or sidelined cash? Sweet spot of the curve or reach for yield? Disfavored sectors or conservative issuers? Cash flow or income? All in or disciplined allocation? The decisions investors are challenged with today are numerous, complicated and sometimes even disguised by contradicting hype.

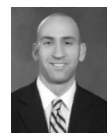
This quarter we attempt to bring clarity to many of these investment dilemmas. There is no one approved scorecard from which to gauge your decisions but that is part of the efficiency and effectiveness of your fixed income allocation: The only benchmark of comparison is your own personalized scorecard. The most difficult investor attribute can be discipline. The discipline to focus on why you allocate assets to fixed income – (often for preservation of principal). Then the discipline not to reach for yield which generally entails additional risk. The discipline to educate yourself on bond traits such as difference between yield-to-maturity and current yield – which can be somewhat confusing.

Our only benchmark is your own personalized investment scorecard.

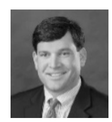
We understand that uncertainty can intensify in extreme markets: soaring stocks, central bank accommodative policies, deficient inflation and large amounts of cash. We hope to bring clarity and a path of logic to approaching some of these market uncertainties. Also remember that you don't need to go at this alone. Your financial advisor has your best investment interests in mind and is supported by a team of Raymond James fixed income professionals ready to assist your personalized investment needs.

FIXED INCOME QUARTERLY CONTRIBUTING STRATEGISTS

DOUG DRABIK



DREW O'NEIL



ROB TAYLOE

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IN THIS REPORT

COVID's Impact on the Market

The financial markets were blindsided in 2020 by a virus pandemic. Prior to COVID-19, the U.S. economy was in a fairly prosperous state, boasting a 50-year low in unemployment (Bloomberg/Bureau of Labor Statistics), a modestly stable GDP since recovering from the Great Recession of 2008, and a very low inflationary environment. The pandemic transformed into a financial crisis, pushing unemployment to 13.0%, the highest in modern economic history and collapsing the economy into a recession where GDP YOY fell to -9.0% by June 2020 (Bloomberg/Bureau of Economic Analysis).

The markets experienced much volatility as the contagion was determined to be airborne and this triggered global actions to mitigate risks of virus exposure and spread. Consequently, adjustments were made to accommodate what has developed into very distinct lifestyle modifications: wearing masks, isolation, working at home, limited travel, social distancing, at-home schooling, internet meetings/gatherings, restaurant/grocery pickup, etc.

Many areas of the economy have bounced back but we are still far from pre-COVID levels. Despite remaining hurdles, the equity markets have continued to flourish while interest rates have continued to decline.

Uncertainty has dominated market tone and although the ensuing election and transition of power may have eased investor hesitation, large amounts of cash remain sidelined as interest rates have settled near historic lows during a period of time when investors seek safety yet demand more income than the markets offer.

Key Market Levels Pre-COVID vs. Now

	1/1/2020	2/1/2021		1/1/2020	2/1/2021
PCE YOY	1.75%	1.45%	Initial Jobless Claims (000's)	212	779
GDP YOY	2.30%	-2.50%	Unemployment Rate	3.6%	6.7%
6mo Treasury	1.58%	0.06%	Labor Participation Rate	63.3%	61.5%
1yr Treasury	1.57%	0.07%	10yr Corp 'A' spread	75bp	73bp
2yr Treasury	1.57%	0.11%	10yr Corp 'BBB' spread	125bp	111bp
3yr Treasury	1.61%	0.17%	10yr Corp 'BBB' yield	3.17%	2.17%
5yr Treasury	1.69%	0.42%	10yr Corp HighYld spread	327	316
7yr Treasury	1.83%	0.76%	10yr Muni 'AAA' Yld as % of Treas	77.3%	64.8%
10yr Treasury	1.92%	1.07%	10yr Muni 'AAA' yield	1.46%	0.69%
20yr Treasury		1.65%	1yr CD Yield	1.75%	0.05%
30yr Treasury	2.39%	1.84%	3yr CD Yield	1.85%	0.20%
S&P 500	3,259	3,766	5yr Agency Yield	1.48%	0.48%
DJIA	28,869	30,645	*Source: Bloomberg LP, Raymond James*		

Traders' Perspectives:

The Traders' Perspective section contains the opinions expressed by Raymond James Fixed Income traders and is not a product of research. It should be viewed as general, market information and may not fit with your financial strategy, plan and goals. You should contact your financial advisor to discuss the content of this publication as it relates to your unique circumstances.

Long-term planning and concentration on cash flow (Colby Meyers, Corporate Bond Trader)

It is impossible to predict market levels and/or future occurrences. Before 2020, many experts forecasted rising interest rates, not unlike the annual expert predictions for higher rates reiterated for decades now. The forecasts have been wrong as general interest rates have declined for over 39 years (Bloomberg/federalreserve.gov). Contrary to lots of advice, duration has been an investor's friend for a long time… including last year. No one saw a pandemic coming which caused a financial recession.

Fixed income is a long-term strategy and those who allocate assets for long-term planning may have benefitted over the decades by preserving their principal. As a bonus, bond holdings have had solid total returns bolstered by appreciation, a positive consequence to falling rates. Cash flow remains an important focus strategically in 2021.

Focus on the steepest part of the corporate curve: 4 to 9 year maturities. Fixed rate over floating. (Steve Christenson, Preferred Securities, Corporate Bond Trader)

Pre-COVID there was already a flight to quality with expectations that interest rates were headed higher. That expectation changed in March when the Federal Reserve stated their intent to keep near zero Fed Funds Rates through 2023. The result: shifting investor focus more to yield and less on quality.

Corporate Floating Rates: Limited issuance in corporate floating rate notes is falling short of demand. One consequence is that outright yields are not keeping pace with fixed rate alternatives. Coupled with the projection that interest rates will be lower for longer, fixed coupons are more desirable.

Corporate Bonds: Today's focus is in the 2025-2030 maturity range. It is no surprise that this represents the "sweet" spot (steepest part of curve) on the corporate curve where incremental yield pickup is greatest versus each additional year of maturity (increase in duration risk). Business Development Companies (BDCs) and Life Insurance Companies are posting the highest yields in this space.

Specific corporate sectors which were trampled due to COVID have rallied but still offer relatively attractive investment-grade yields. (Chris Hatch, Corporate Bond Trader)

Pre-COVID, the gaps between various corporate sub-sectors were based largely on individual issuer credit-worthiness. The pandemic wielded its impact by March and corporate sectors became very segregated. The travel and leisure industries: cruise companies, aircraft/air travel, hotels, retail companies, restaurants, and casinos all got trampled by shut downs, forced restrictions and consumer avoidance. Liquidity was poor. Spreads widened significantly. Some credits were eventually downgraded to below investment-grade or "junk" status. When the Fed provided liquidity, markets stabilized and some of these sectors became part of the "reopening" trade. On days when the media reported encouraging news about the containment of the virus or progress for a vaccine, there was strong demand for these now higher yielding credits. When the media and/or consumer sentiment was negative about the effects of COVID on the economy, certain issuers would be out of favor.

We continue to see demand for certain issuers across the curve in airline, air travel and retail. We see demand for front-end hotel bonds from investors who understand the risks. Since the initial impact of COVID, most curves have steepened considerably, providing better relative value around five to ten years in maturity for most of these credits.

Fast forward to now and some issuers are still among the highest yielding in the investment-grade space, but they have begun to tighten. The risk on / risk off sentiment is now focused on vaccine progress and states tightening/relaxing restrictions.

CD concentration around one year is driven by demand for a high quality short alternative. (John Hamm, CD Trader)

Certificates of Deposit: Brokered CD supply was plentiful pre-COVID and yields were competitive in the short term investment space. The pandemic created uncertainty and influenced a massive shift to consumer saving. Large depository savings alleviated bank needs to raise outside capital. At the same time CD supply began to lessen, demand for high quality short-term securities increased driving spreads in the secondary market to their current low levels. Traditional CD program issuers are likely to continue to stay sidelined until more favorable market conditions resurface. The majority of investor interest (based on this trader's observations) is one year and in with more moderate activity for one to three and one to five year laddered approaches.

For investors requiring the highest credit quality, Treasuries are more liquid, exempt from state taxes and currently maintain yields relatively near agency yields. (John Bryant: Treasury & Agency Bond Trader)

<u>Treasury/Agency</u>: New issue agency primary prints were inside of five years. As Treasuries hit low yields in August, agency spreads began to tighten offering little comparative yield advantage. Spreads are beginning to widen but still require investors to extend beyond five year maturities to provide significant advantage. The bottom line: for investors who are interested in the highest credit quality, Treasuries are more liquid, exempt from state taxes and currently maintain yields relatively near agency yields.

Use municipal issues with 4.00%-5.00% coupons and call features inside the shorter part of the curve. (Roxanne Post: Municipal Bond Trader)

<u>Municipal Bonds:</u> Investors can lower duration via coupon selection and still look to bonds that will optimize yield. Structured municipal issues inside of 15 years in maturity with 4.00%-5.00% coupons and call features inside the shorter part of the yield curve can provide lower durations and effective yields. This structure allows investors relatively higher yields in the favored part of the curve (yield to worst with modest duration) with the benefit of high coupons should the bond not be called.

Individual issues can provide complete control of characteristics that meet investor desire: bond characteristics such as demographics, coupon, structure, duration, etc. Consider all of your options and compare appropriate yields on alternatives. Municipal bond tax-exemption translates to a higher tax-equivalent yield. Current yield (typical yield quoted on investments that do not have a maturity) is not the same as yield-to-worst. To calculate a current yield on any bond, just take the coupon divided by the current market price.

The most cost-effective way to maintain your fixed income allocation may be individual bonds. (Chris Spencer: Municipal Bond Trader)

The overriding benefits for fixed income trust that asset allocation, cash flow and return of principal are understood. Asset allocation requires a balance of growth assets (such as equities, real estate, MLPs, etc.) and wealth preservation assets (such as individual bonds). This is a favored way to build and then hold onto your wealth. Cash flow became a focus when interest rates continued to decline. Some investors need a level of cash flow to maintain their lifestyle. With interest rates at or near historic lows impeding income goals, cash flow can become a vital component for many investors.

What also becomes a consideration is the most cost-effective way to compile and maintain your fixed income allocation. Individual bonds can provide a platform to help meet fixed income needs without additional ongoing costs or fees sometimes associated with packaged products or managed funds. Of course, the ability to personalize strategies with specific bonds, to tailor characteristics and to provide complete control are additional features that investors should consider particularly at a time when every basis point in yield can make a big difference.

This may be the perfect market to sell any low grade credits. The extreme low interest rate environment provides a great opportunity to swap out of questionable credits (Detroit Municipal Trading Desk)

Cash Flow Planning

One directive of fixed income is that it entails long-term planning, rarely striving to time the market. As an investor, once you've attained your wealth goal, it is imperative that you don't lose it, especially after your earning potential has peaked. A lifetime of declining interest rates has made it difficult at best, to continue a wealth accumulation plan post-retirement, without taking risks that potentially compromise the money you spent a lifetime accruing.

Given our historically low interest rate environment, it is quite possible that clients who require a minimum income to meet needs, have to look at cash flow with a new perspective. The following illustration depicts a way to create the use of cash flow for this purpose.

Cash Flow Planning

Investment	3,000,000	3,000,000	3,000,000
Coupon	1.00%	4.00%	5.00%
Maturity	2030	2030	2030
Price	$ 100.00	$ 127.09	$ 137.92
Par	3,000,000	2,360,532	2,175,174
YTW	1.00%	1.00%	1.00%
Current Yld	1.00%	3.15%	3.63%
Cash Flow	**30,000**	**94,400**	**108,750**

hypothetical example used for illustrative purposes only

Coupon adjustments may allow you to control the cash flow. Since some of the cash flow represents return of principal, over time this investor's original principal value will contract. Your financial advisor can formulate a plan based on age and lifestyle requisites that is appropriate for your situation. In the illustration, the same principal value can be invested in various coupons which can provide anywhere from $30,000 to $108,750 in annual cash flow. The larger coupon plan uses part interest and part principal to help achieve a desired cash flow. Remember we are *using* not *losing* this principal. Cash flow planning can include the use of high quality investments.

High quality lower beta bonds in the four to ten year maturity range may optimize relative value in this market environment. (Mike Petersen, Corporate Trader)

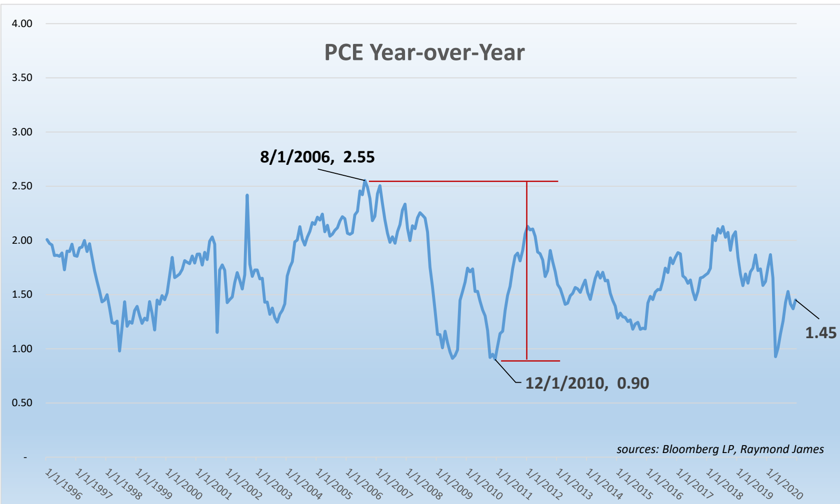
Within the investment-grade corporate bond sector, not all credits have reacted identically. Certain high-beta spreads compressed more. In other words, higher credit quality security spreads (such as identifiable A-rated or better issuers) were relatively more stable versus low investment-grade or high yield credits. Accordingly, as interest rates backed-up, these bonds provide relatively better yields since they were not negatively impacted as much as securities whose spreads lowered further.

This provides an argument for maintaining higher credits in the current market environment. High quality low beta bond spreads have not declined at the pace yields have increased. Although typically the higher the credit quality, the lower the yield, low beta high quality bonds may provide stability since associated spreads are likely less volatile.

This may not a time to be chasing yield or spread, a tough mental exercise in a low interest rate environment that begs investors to look outside the box. Some investors may benefit from high quality lower beta bonds in the four to ten year maturity range. One of the most important fixed income features can be preservation of principal.

Inflation - Should I Be Concerned?

A common concern we hear is about runaway inflation (a high difficult to control inflation). The Federal Reserve's preferred measure of inflation is Personal Consumption Expenditures (PCE). PCE has been in a low tight range for the past 25 years (0.90% - 2.55%). The Fed's target inflation is "on average" about 2.00%.



As cliché as saying fear and greed motivate investors, it often winds up being the case. It is in vogue to instill inflation fear right now. Be careful and quantify the argument. Can we see inflation resulting from huge worldwide stimulus packages? Absolutely; however, if PCE moves from 1.45% to 1.90%, inflation is *higher* yet inflation is not *high*.

"It's different this time" as unlike the money created during QE1 to QE3 that largely got caught up in the banking system, the current stimulus packages are in part going straight to the consumer's pocket. Although that is partly true (a portion is going direct to the consumer), according to a New York Fed Survey, the last checks received by consumers saw only 29% go to consumption. The vast majority (>70%) went into savings and to pay down debt, neither of which are inflationary. Many surveys support the idea that consumers intend to use an even greater portion of the upcoming checks to pay off debt.

It is not always black and white as we have seen pockets of inflation: college tuitions, medical services, food, lumber, etc. The most obvious mark has been asset inflation, where central bank's creation of new money has played its role in propping up both the stock and bond markets. Asset inflation does not show up in PCE. There is another side though and some of it is due to technology. Cell services, TVs, toys, computer, software, etc. are all more affordable. Yesterday's personal stereos, clock radios, pocket calculators, computers, VHS recorders, mobile phones, portable CD players, answering machines and cassette tape players are today's smartphones.

Our general take is that although we will continue to see pockets of inflation, we do not anticipate runaway inflation. Still, we understand that investors may view the situation otherwise and choose to take steps to hedge against higher inflation.

Investors may have instinctively considered Treasury Inflation Protected Securities (TIPS) to counter inflation. However, 10 year TIPS currently yield a negative 1.15%, excluding this as a viable option. A feasible and practical tactic to contend with inflation may be in creating a uniform bond ladder.

A ladder can provide a two way hedge against interest rate movements. If rates increase, the bonds with longer maturities (higher durations) in the ladder may lose market value. However, the maturing bonds will be reinvested at higher rates, increasing the overall portfolio yield. If interest rates decrease, the longer maturing bonds will likely appreciate, while the maturing dollars will be reinvested at lower interest rates. The strategy works to mitigate inflation risk associated with interest rate risk while becoming the portfolio's foundation.

Clarifying Financial Jargon

Return *of* Principal, not Return *on* Principal

Not all investments were created equal… with reason. There are two distinct asset groupings: growth and income. Growth assets rely on appreciation to increase their value during an investor's holding period. If you buy a stock at $50/share, it grows your principal by appreciating to $70/share (*return on principal*). If you buy $1,000 bond, it will mature in the future at $1,000 (*return of principal*). Its value is its income (interest) and preservation of principal.

Individual Bonds & Packaged Products With Bonds

Most packaged products do not have a stated maturity therefore they cannot preserve principal in the same manner as individual bonds. Regardless of interest rate changes over a holding period, individual bonds will gravitate toward par and principal will be returned by maturity. Packaged portfolios contain bonds but they are bought and sold changing the composite of the holdings. Most portfolios never mature and thus the principal value to the investor may fluctuate.

Dividend Paying Stocks & Bond Interest

Risks are different: historical bond volatility is much lower than the volatility of stocks. Bond interest is a contractual agreement to pay income from issuance to maturity. Stock dividends are paid at the discretion of a company's board of directors. Dividends may grow, shrink, or be eliminated based on many factors while interest is fixed over a bond's life.

Managed Money & Individual Bonds

In both situations, industry professionals are behind the scenes. Money managers are typically designing portfolios based on their outlook of the market and methods that may benefit the masses. Money managers will charge an ongoing fee. A small 25bp fee in a market where the five year Treasury is 0.46% can have a major impact on net yield. In contrast, individual bonds allow an investor to personalize holdings to help meet their needs and outlook.

Yield-to-Worst & Current Yield

Funds will quote current yield because they don't have an end date (maturity) to compute a finite return. Current yield is simply the coupon divided by the market price. Although it is part of what you will earn, it has everything to do with the amount of cash flow you can receive. The higher the coupon, the higher the current yield, even if comparing two securities with the same yield-to-maturity.

Yield-to-Worst is a fixed return that you will receive if you hold a bond to redemption, regardless of interest rate or any other market changes that occur during the holding period. Comparing the two is like comparing an apple to an orange.

Economic Data & Economic Direction

In the previous article on inflation, we used a hypothetical where PCE rose from 1.45% to 1.90%. This is a marketable difference and *higher* release but not a *high* inflation number. Nonetheless, we would anticipate that a large directional inflation adjustment could expose a temporary snap reaction or, over time result in a more permanent correction.

Other economic data releases have the potential to move the markets. Rational underlying fundamentals are sometimes trumped by irrational enthusiasm. Gross Domestic Production (GDP) is a measure of the market value of all goods and services. A consequence of our worldwide pandemic was the shutdown of many businesses and/or slowdown of consumer participation. The last four year-over-year GDP releases were 0.3%, -9.0%, -2.8% and -2.5%. The next couple of GDP releases are likely to show large percentage gains which would be directionally positive versus 2020's economic pullback; however, the underlying nominal production number is likely to be overshadowed by percent change. Snap reactions to the directional move often shade the meaningful number (data).

Cash Flow and Income

Income is what you earn on your money, cash flow is a return of what you earn + principal. If you pay a premium on a bond, the coupon payment will include income and return of principal. If you pay par on a bond, the coupon and income are one and the same. If you pay a discount on a bond, the coupon is part of your income (the rest is built into the appreciation).

Portfolio Management

The beginning of a new year is a great time to take a step back and look at your fixed income portfolio from a fresh perspective. Over time, needs change, risk tolerances shift, and preferences are altered. A portfolio that was constructed several years ago may need to be tweaked slightly or overhauled completely to ensure that it meets your present-day needs. Every individual's situation is going to be different and may or may not require a portfolio adjustment. With so many moving parts economically, statistically and personally, here are several potential considerations that may apply:

Has your federal income tax bracket changed?
Investors in high tax brackets generally benefit from tax-exempt municipal bonds, while investors in lower tax brackets might benefit from owning taxable products. If your tax bracket has changed since you built your bond portfolio, taking a fresh look at your current tax bracket and the resulting after-tax yield can reveal whether the tax-exemption is beneficial or if a taxable product is now a better fit.

A marginal tax rate shift can happen at retirement when investors leave high-paying jobs and now must rely more singularly on investment portfolio returns. If your tax-bracket is significantly different or means of income has shifted, consider reevaluating your portfolio's mix of tax-exempt versus taxable bonds to determine the proper mix for an optimal return.

Have you moved to a different state?
If you have recently moved to a different state, a heavily weighted state-specific municipal strategy might lack previous state tax benefits. A change in venue might dictate a concentration change in state issues from your new location. A move to a state with low or no state income tax may allow you to expand nationally, potentially providing both diversification and yield benefits. Conversely, if you recently moved to state with a high tax rate, bonds issued from that state might optimize returns and/or eliminate state taxes.

Does the credit quality of your portfolio still align with your risk tolerance?
Portfolios are often constructed aggressively, conservatively or somewhere in-between. Lifestyle changes, maturity and acquired wealth often change and therefore can shift your risk tolerance. Consider your risk profile alongside life changes and match appropriate investments and strategies.

If your risk profile has not changed, determine if the credit quality of your holdings has. Credit quality of issuers change over time, which is not unexpected but periodic check-ups help to ensure that nothing you own has fallen outside of your desired risk tolerance.

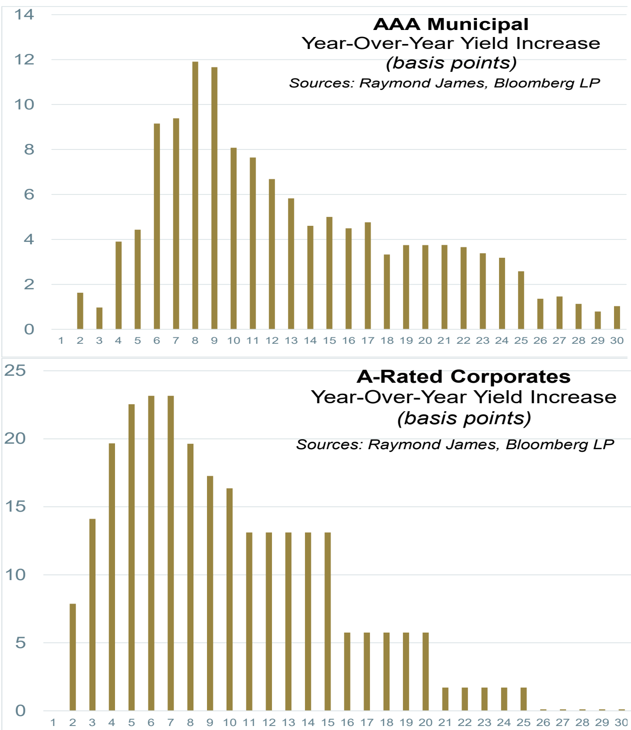
Our current market environment is providing an opportunity to clean up or increase credit quality without marketable income changes.

Is your portfolio providing its desired liquidity and cash flow? Liquidity needs can change when large cash outlays are needed for school, building a house, buying a vacation home or other special events. Maturity schedules can easily be designed to accommodate these occurrences.

Another major life event can change your cash flow needs – retirement. When you sell a business or retire from an income-paying career, the stoppage of a regular paycheck alters a household's cash flow. Maturity scheduling and/or coupon strategies can be devised to help meet your appropriate/desired cash flow needs.

Finding Competitive Product Yields

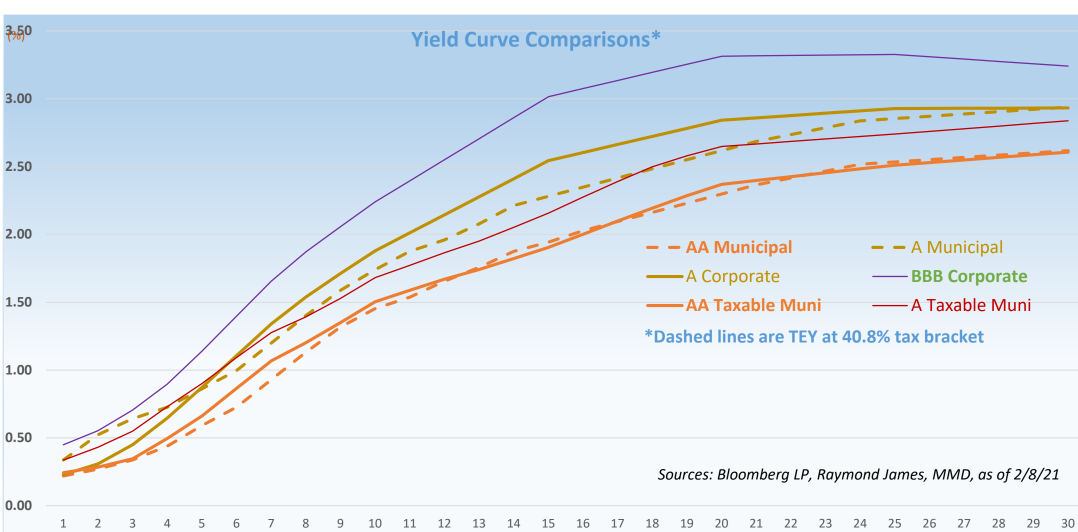
Curves The graphs below show the steepest portions of both the AAA municipal and the A-rated corporate curves, showing the year-over-year yield increase for each maturity. Essentially, the higher the bar, the steeper the curve is at any given point. The steeper the curve, the more relative value that can be captured by extending out an additional year in maturity. The highest A-rated corporate maturity value is in the 4 to 10 year range. AAA-rated municipals provide an optimal risk/reward dynamic in the 6 to 17 year maturity range.



Sources: Bloomberg, Raymond James as of 2/8/2021

Product Comparison The graph below provides a snapshot of various fixed income sectors and their comparative yields. Our low interest rate environment has resulted in many product types and credits overlapping, creating choices for investors in a very tight yield range. By example, A-rated corporate yields are nearly identical to A-rated municipal tax-equivalent yields (TEY). Investors in the top Federal tax bracket that invest in A-rated municipals, might find a competitive alternative with A-rated corporates. A-rated taxable municipals are an often overlooked product, but their yields are also very comparable to their other A-rated counterparts. A variety of viable product alternatives may maximize the option of bond choices and thus increase an investor's ability to locate and optimize value within their defined parameters.

The yields displayed in the graph are averages for the respective products; therefore, there are bonds that offer both higher and lower yields versus the graph's yield points. Since actual data points for each product are scattered above and below their respective lines, the overlap of yields from various products only increases. This array of choices provides investors the opportunity to expand their search and build a product and maturity diversified portfolio.



The following excerpt is from the February 1, 2021, Municipal Bond Investor Weekly (MBIW) publication. It is authored by Ted Ruddock, Managing Director and Head of our High Net Worth group. For the full report, contact your advisor.

The Lone Star State (Texas) is the second largest state in the country, both in size and population, and Texas issuers rank third in municipal issuance (behind CA and NY) with $400 billion in bonds outstanding (Bloomberg). February and August are traditional debt service payment months for many Texas issuers, particularly school districts. Consequently, those months see substantial amounts of money in motion from both regularly scheduled principal and interest payments, but more importantly redemptions from refunded bonds. For context, of all the bonds maturing/being redeemed in Raymond James retail accounts this month, ~45% are from Texas issuers (*source: Raymond James).* Overall, Bloomberg reports that ~$5 billion in Texas paper will mature or be called in February, with less than $3 billion ahead for new issuance in Texas. Many investors will be looking to replace those bonds --- and likely looking for Texas bonds.

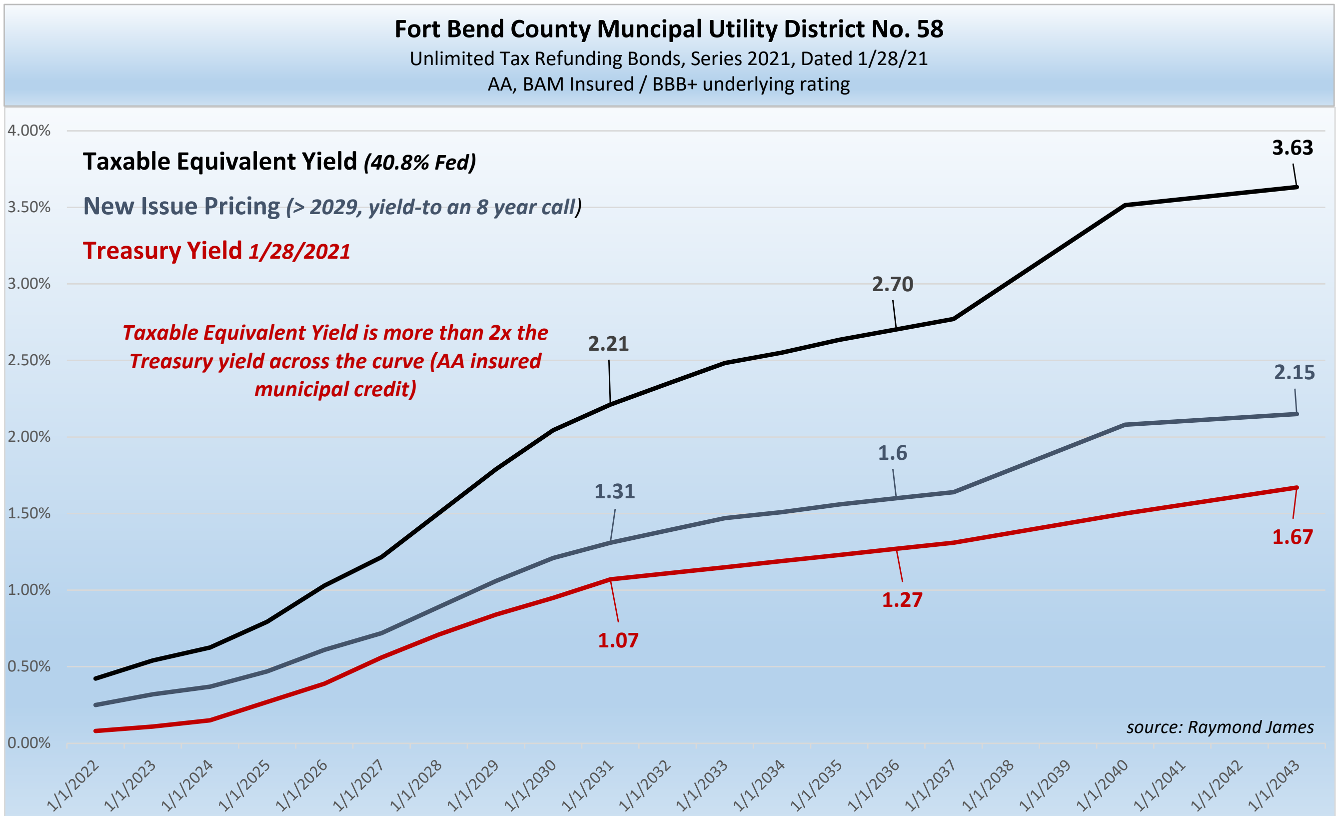
Why Texas? Well, one reason is Texas paper trades a bit "cheap" to the market, offering a good value to investors. One way we measure "cheap/rich" in the municipal market is relative to the AAA pricing curve. Currently the Bloomberg Benchmark 10 year yield for generic AAA rated 5% coupon paper is 0.70% (~50bps lower than last year at this time.) For Texas (Aaa/AAA), 10 year paper is 0.75% or 5 basis point "cheaper". This is not a huge difference, but in a low yield world, every basis point counts. *By comparison, Illinois (Baa3/BBB-) is the cheapest at 130 basis points over the curve, where its ten year paper trades ~2.00%.*

In Texas, opportunities for investors exist in two distinctly different sectors. One is Texas school district bonds, with the "extra" security for investors in the Texas Permanent School Fund (PSF), which itself has Aaa/AAA ratings. The other sector with yield opportunity is in Texas Municipal Utility Districts.

A Municipal Utility District (MUD) is a political subdivision of the State of Texas authorized by the Texas Commission of Environmental Quality (TCEQ) to provide water, sewage, drainage and other utility-related services within the MUD boundaries. These districts are typically formed outside traditional city limits, where no municipal services are currently offered and serve defined developments, either residential, commercial or mixed use. They are governed by a separate board and levy taxes based on property values. MUDs issue essential service bonds, typically to build water and wastewater infrastructure; the bonds are backed by ad-valorem taxes on properties within the district. MUDs vary in size, but they generally serve master-planned communities of a few hundred households.

Because most MUDs are for limited service areas and depend in part of growth in that area, they are generally rated BBB. Consequently, to lower their debt service costs, many MUDs choose to have their bonds insured providing a higher rating, typically in the AA or A category. MUDs offer a competitive relative value for investors who are comfortable taking on a modest level of additional credit risk.

We show a recent bond sale by Fort Bend Municipal utility District # 58 (Raymond James participated in this deal, sold on January 28, 2021). This new issue

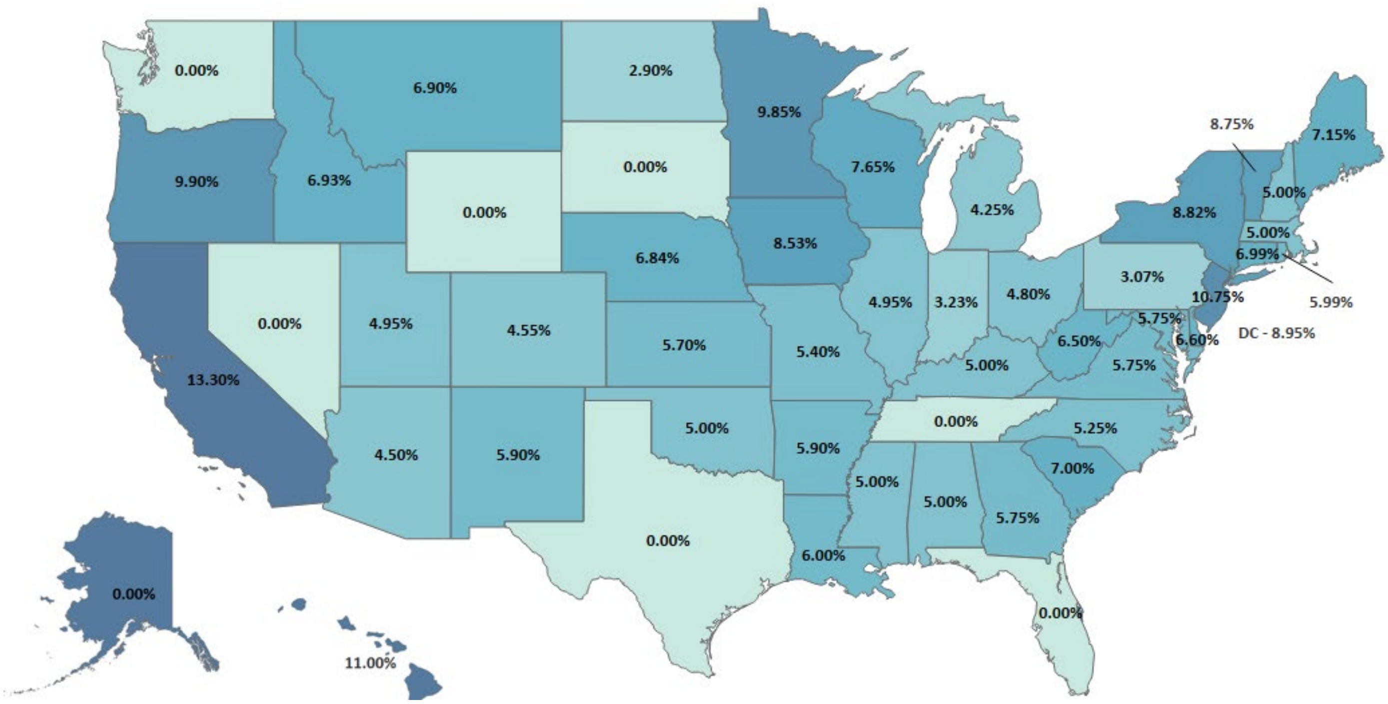


offered investors a typical "retail" coupon structure, meaning most maturities had 3% coupons, with 2% coupons on the long end as par/discount bonds. The debt maturities ranged from 2022 – 2043. The graph shows three yield curves. The taxable Treasury curve (red line) on January 28, the date of issuance. The blue line shows the tax-exempt offering yields for the Fort Bend MUD. The black line highlights the ***taxable equivalent yields*** that investors in the top federal bracket (37% plus NIIT of 3.8%) can realize by investing in the Fort Bend MUDs.

Typically, we favor TX MUD bonds inside 15 years. This deal structure has a call feature in eight years, meaning all bonds maturing after 2029 *could* be called in 2029. For an investor buying the 15 year maturity, 3.00% coupon of 2036 with a call option in 2029, the yield to the call is a 1.60% (+33 basis points over Treasuries) and a taxable equivalent yield of 2.70%, which at +143 basis points over Treasuries (1.27%) offers more than 2x the yield reflecting an opportunity in a low yield market. Why risk abandoning your wealth preservation asset allocation when you can achieve both a current yield and taxable equivalent yield of nearly 3%? Financial advisers and their clients can rely on the expertise of our Texas traders who possess decades of experience and can identify value opportunities in the Texas MUD market.

2021 State Personal Income Tax Rates

Personal state income tax rates may affect your decision-making process, especially when municipal bonds or comparisons to municipal bonds are of concern. The following map identifies the 2021 personal state income tax rates. Always consult your tax account or professional before making tax-affected decisions.



Sources: State tax and/or department of revenue websites, Raymond James

Know What You Can Own

Most individual bonds provide investors with a few prominent features that are difficult to find in other product types, most notably: known cash flow for the life of the security, known income (yield) at the time of purchase, and a known date when principal will be returned. While most individual bonds provide all of these benefits to investors, there are many types of individual bonds, each having different features and applications within a portfolio. As an investor, sometimes it's difficult to know which product is most appropriate for a given situation. Here we shed a little light on when various products might be appropriate.

- ✓ Identify acceptable risk factors.
- ✓ Define desired income.
- ✓ Create required cash flow.
- ✓ Identify requisite redemption period.
- ✓ Create needed liquidity.
- ✓ Isolate personal biases.
- ✓ Use appropriate asset mix.
- ✓ Diversify.
- ✓ Rebalance when applicable.

	Product Attributes	*Where to position?*	*How does this fit?*	*Additional Considerations*
Treasury	Minimal credit risk. State and local tax exempt.	Generally purchased for safety and/or liquidity.	Can I benefit from the state tax exemption? Am I seeking safety and liquidity over maximizing yield?	Although credit risk is minimal, market risk increases with lengthening maturity.
Certificates of Deposit Brokered	FDIC insured. Ability to diversify with multiple issuers.	Greater relative value tends to be on short end of the curve (<=3 years).	Do I need higher safety of principal? Typically more attractive yield versus Treasuries.	$250,000 per issuer per tax ID maximum size for insurance. Sales prior to maturity subject to interest rate risk and liquidity risk.
Municipal Tax-exempt	Tax exempt income with favorable long term credit standing.	Intermediate maturities in the 10-15 year range with calls in the 4-10 year window.	The higher the tax bracket, the greater the tax benefit. Relatively wide spreads in desirable sweet spot of the curve.	Diversification easily attainable yet the liquidity is lesser versus other alternatives due to limited issue sizes. Subject to credit and interest rate risk.
Municipal Taxable	High quality, taxable alternative.	Intermediate duration range 3-8.	High credit quality alternative taxable investment. Investors in a lower tax bracket not benefitting from tax-exemption but still seeking the high quality and diversification offered by municipal bonds.	Diversification easily attainable yet the liquidity is lesser versus other alternatives due to limited issue sizes. Subject to credit and interest rate risk.
Investment Grade Corporates	High quality, relatively good liquidity and competitive yields.	Intermediate maturities in the 5-10 year window. Utilizing the "sweet spot of the curve" in the 4-7 year window.	The breadth of the corporate market can allow for extensive diversification from credit ratings to multiple sectors. Good liquidity. Flexibility to create desired cash flow and income levels.	Wide range of issuers with various degrees of credit risk. Credit risks can fluctuate during holding period although this will not alter designated cash flow, income or redemption periods.
Preferred Securities	Appeal to investors seeking higher yields and/or high cash flow	Positioned as a boost to income via very long or perpetual maturities.	This benefits the portfolio as a higher yielding component with more risk versus true fixed income alternatives.	Preffered's are subordinate to debt securities but placed ahead of common stock in the corporate structure. Being perpetual or very long dated exposes them to increased price volatility. Not a hold-to-maturity alternative.

Fixed Income Strategy Resources

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The Fixed Income Strategy Group provides market commentary, portfolio analysis and strategy to Raymond James advisors for the benefit of their clients and prospects. We are part of the larger 14-person Fixed Income Solutions group within the Raymond James' Fixed Income Capital Markets Group's 39 fixed income locations with more than 450 fixed income professionals including trading and public finance specialists nationwide. This publication does not constitute Fixed Income research, but rather it represents commentary from a trading perspective.

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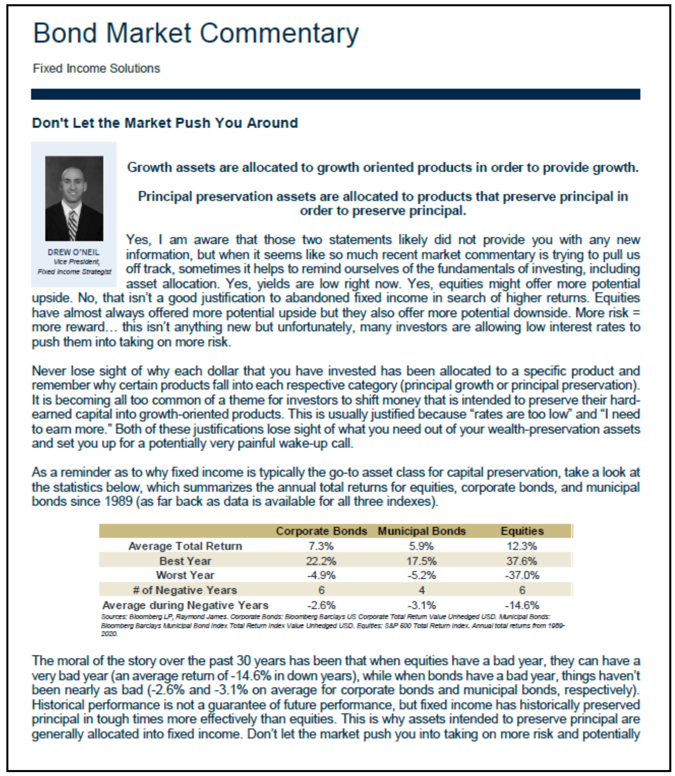
- Weekly Interest Rate Monitor (PDF)

INVESTMENT TYPES/EXPERTISE INCLUDE

- Treasuries/Agencies
- Brokered CDs
- Corporate bonds
- MBS/CMOs
- Tax-exempt municipals
- Taxable municipal bonds
- Preferred securities


Bond Market Commentary

Fixed Income Solutions

Don't Let the Market Push You Around

DREW O'NEIL
Vice President, Fixed Income Strategist

Growth assets are allocated to growth oriented products in order to provide growth.

Principal preservation assets are allocated to products that preserve principal in order to preserve principal.

Yes, I am aware that those two statements likely did not provide you with any new information, but when it seems like so much recent market commentary is trying to pull us off track, sometimes it helps to remind ourselves of the fundamentals of investing, including asset allocation. Yes, yields are low right now. Yes, equities might offer more potential upside. No, that isn't a good justification to abandoned fixed income in search of higher returns. Equities have almost always offered more potential upside but they also offer more potential downside. More risk = more reward… this isn't anything new but unfortunately, many investors are allowing low interest rates to push them into taking on more risk.

Never lose sight of why each dollar that you have invested has been allocated to a specific product and remember why certain products fall into each respective category (principal growth or principal preservation). It is becoming all too common of a theme for investors to shift money that is intended to preserve their hard-earned capital into growth-oriented products. This is usually justified because "rates are too low" and "I need to earn more." Both of these justifications lose sight of what you need out of your wealth-preservation assets and set you up for a potentially very painful wake-up call.

As a reminder as to why fixed income is typically the go-to asset class for capital preservation, take a look at the statistics below, which summarizes the annual total returns for equities, corporate bonds, and municipal bonds since 1989 (as far back as data is available for all three indexes).

	Corporate Bonds	Municipal Bonds	Equities
Average Total Return	7.3%	5.9%	12.3%
Best Year	22.2%	17.5%	37.6%
Worst Year	-4.9%	-5.2%	-37.0%
# of Negative Years	6	4	6
Average during Negative Years	-2.6%	-3.1%	-14.6%

Sources: Bloomberg LP, Raymond James. Corporate Bonds: Bloomberg Barclays US Corporate Total Return Value Unhedged USD. Municipal Bonds: Bloomberg Barclays Municipal Bond Index Total Return Index Value Unhedged USD. Equities: S&P 500 Total Return Index. Annual total returns from 1989-2020.

The moral of the story over the past 30 years has been that when equities have a bad year, they can have a very bad year (an average return of -14.6% in down years), while when bonds have a bad year, things haven't been nearly as bad (-2.6% and -3.1% on average for corporate bonds and municipal bonds, respectively). Historical performance is not a guarantee of future performance, but fixed income has historically preserved principal in tough times more effectively than equities. This is why assets intended to preserve principal are generally allocated into fixed income. Don't let the market push you into taking on more risk and potentially

Duration is the measure of a bond's price sensitivity relative to interest rate fluctuations.

Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal. The process of rebalancing may carry tax consequences.

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Should interest rates remain unchanged, increase, or even decline, a laddered approach to fixed income investing may help reduce risk, improve yields, provide flexibility and provide shorter-term liquidity. Risks include but are not limited to: changes in interest rates, liquidity, credit quality, volatility and duration.

U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Bonds may receive credit ratings from a number of agencies however, Standard & Poor's ratings range from AAA to D, with any bond with a rating BBB or higher considered to be investment grade. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.
A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

Prior to transacting in any security, please discuss the suitability, potential returns, and associated risks of the transactions(s) with your Raymond James Financial Advisor.

Investing involves risk and you may incur a profit or a loss. The value of fixed income securities fluctuates and investors may receive more or less than their original investments if sold prior to maturity. Bonds are subject to price change and availability. Investments in debt securities involve a variety of risks, including credit risk, interest rate risk, and liquidity risk. Investments in debt securities rated below investment grade (commonly referred to as “junk bonds”) may be subject to greater levels of credit and liquidity risk than investments in investment grade securities. Investors who own fixed income securities should be aware of the relationship between interest rates and the price of those securities. As a general rule, the price of a bond moves inversely to changes in interest rates.

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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) are issued without a federal tax exemption, which subjects the related interest income to federal income tax.

Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency, not bank guaranteed, subject to risk and may lose value.

New issues are offered by Official Statement only, which describes the security for such issue and which may be obtained in any state in which the undersigned may lawfully offer such issue.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

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