RAYMOND JAMES

SECOND QUARTER 2025

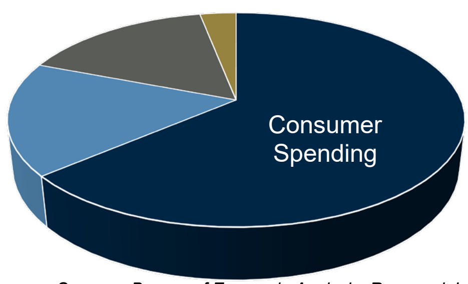
Fixed Income Quarterly

Market Perspectives from Fixed Income Solutions

Clear Vision Among Mixed Messages & Uncertainty

The financial markets are providing plenty of data for debate. Add in geopolitical unrest and there is enough chaos and mixed messages to unsettle the markets and create investor uncertainty. Consumer uncertainty impacts the US economy, a consumer-driven economy. According to the Bureau of Economic Analysis, consumer spending accounts for 68.5% of the GDP – a significant impact.

GDP



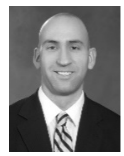
Sources: Bureau of Economic Analysis, Raymond James

Consumer confidence has taken a big downturn. With failing resolve for ongoing conflicts in Ukraine/Russia and the Gaza Strip, and now with the added tension between two nuclear powers (Pakistan and India), geopolitical unrest is soaring. It is not solely about shaping geographic lines, but the consequences for trade, distribution of natural resources, and foreign relations.

One consequence of the global macroeconomic environment has been elevated interest rates for nearly two years. Elevated interest rates provide fixed income investors with opportunities to capture higher income levels while helping to preserve principal (accumulated wealth). This elevated rate environment is approaching its second year. This quarterly examines the timing and nominal yield levels for investors across a broad fixed income spectrum. In the world of uncertainty, fixed income provides an opportunity to lock in benefits from short to long term that are tailor fit for many specific, unique situations.

FIXED INCOME QUARTERLY CONTRIBUTING STRATEGISTS

DOUG DRABIK



DREW O'NEIL

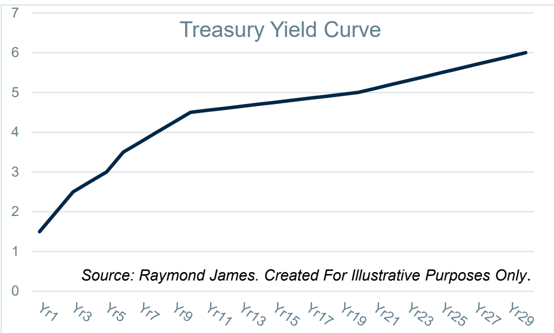
ROB TAYLOE

KEITH PARRISH

IN THIS REPORT

MARKET CHAOS IS HARVESTING INCOME OPPORTUNITIES

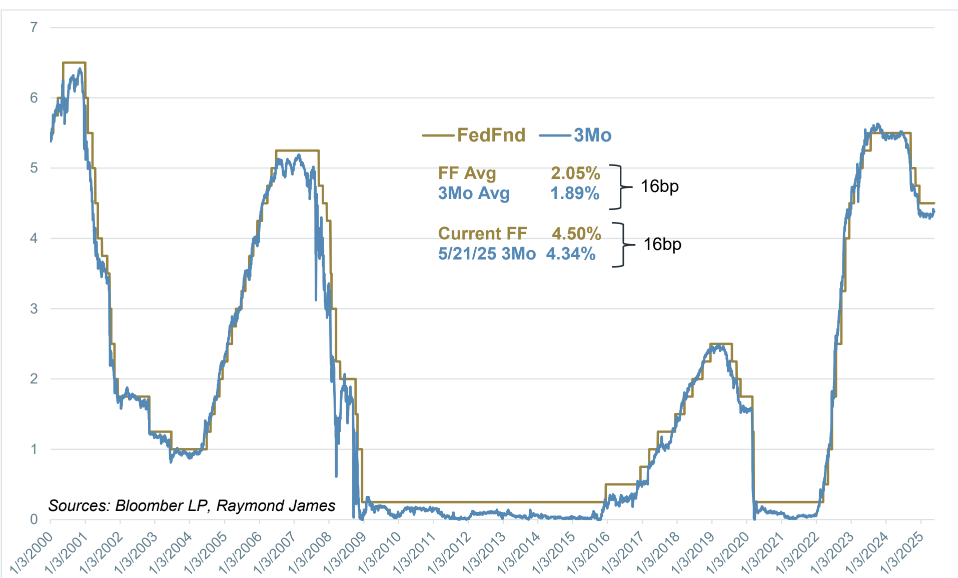
Take a minute to imagine a “normal” yield curve. What might it look like? Intuitively, the more duration risk taken, the more reward or yield demanded by investors. This is why, historically, the yield curve provides incrementally more yield for longer-maturity bonds. It may be called an upward sloping curve appearing like the following graph.



Geopolitical events, government and central bank policies, black swan events (like COVID), inflationary expectations, consumer sentiment, and domestic disturbances are among the collection of occurrences that can change the shape of the Treasury curve. Most recently, the Treasury curve was downward sloping or inverted (short-term rates were higher than long-term rates) for what proved to be an exceptionally long time (over two years). Curves can invert when consumers think the economy is slowing down yet short term rates remain elevated.

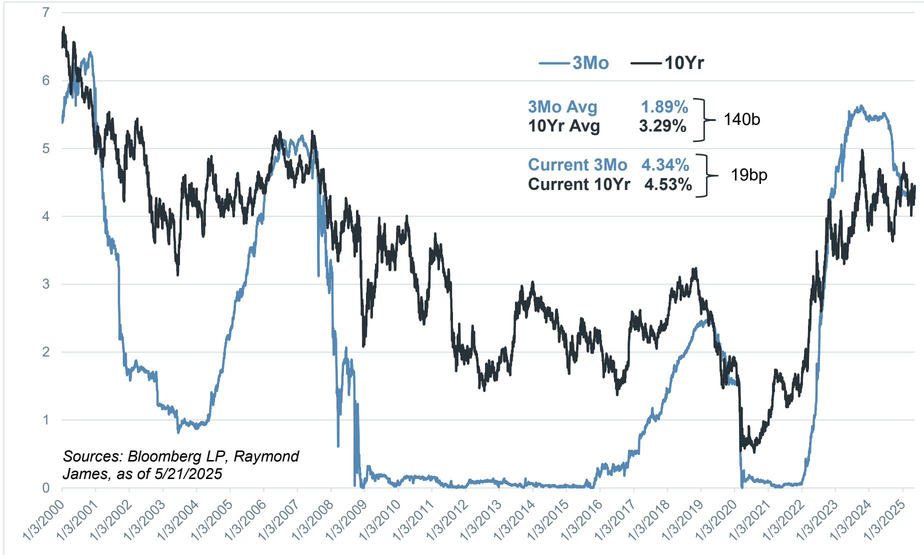
WHAT IS DURATION?

Duration is a measure of price sensitivity. Price sensitivity tends to increase with longer maturities. If a bond’s duration is 3, it means that for every 1% change in interest rates, this bond’s price will change ~3%. Keeping in mind the inverse relationship between a bond’s price and its yield, a 1% increase in rates will bring this bond’s price down 3%. Conversely, a 1% drop in rates will raise this bond’s price by 3%.



The US central bank (the Federal Reserve) dictates monetary policy. That is, they control short-term interest rates by setting the rate on Federal Funds. Raising and lowering the Federal Funds rate can stimulate or dampen economic activity by making it easier or harder (more expensive) for businesses to borrow short-term funding for business activity. When examining the comparison between Fed Funds and the 3-month Treasury Bill, they are correlated, which tends to explain why investors can assume the Fed controls all interest rates. In reality, they are controlling short-term interest rates. For the past 25 years, the average difference between Fed Funds (upper bound) and the 3-month Treasury Bill has been 16 basis points. Not surprisingly, the current difference between them has been around 10 to 18 basis points.

Moving out on the curve, things do not add up so cleanly, historically speaking. This next graph compares the relationship between the 3-month and 10-year Treasury. In the previous 25 years, the average spread between the two has been 140 basis points. As of May 21, the 10-year Treasury is 19 basis points higher versus the 3-month T-Bill.



There are several takeaways. The Federal Reserve does not have the same influence on the longer end of the Treasury curve as they do on short-term interest rates. So why is the intermediate to long part of the curve not historically “in line?” The reason(s) may help to explain the financial markets' volatility as well as the Federal Reserve's dilemma. No one has a clear picture of the direction of the economy or the direction of interest rates. There is compelling evidence to suggest the economy may slow down. If this is the case, why isn’t the Fed lowering short-term interest rates to keep the economy stimulated? Not all evidence suggests the economy may slow down. Some economic data has shown resilience as consumers remain engaged and employment stays near optimal levels.

On the other hand, inflation remains sticky and trials like higher tariffs threaten ground already gained, thus fueling inflation fears. This could force the Fed to keep interest rates as is or even consider raising rates. The dilemma is real, and there are plenty of bright financial minds on either side of the debate. What has developed is a relatively odd-shaped curve and considerable market volatility.

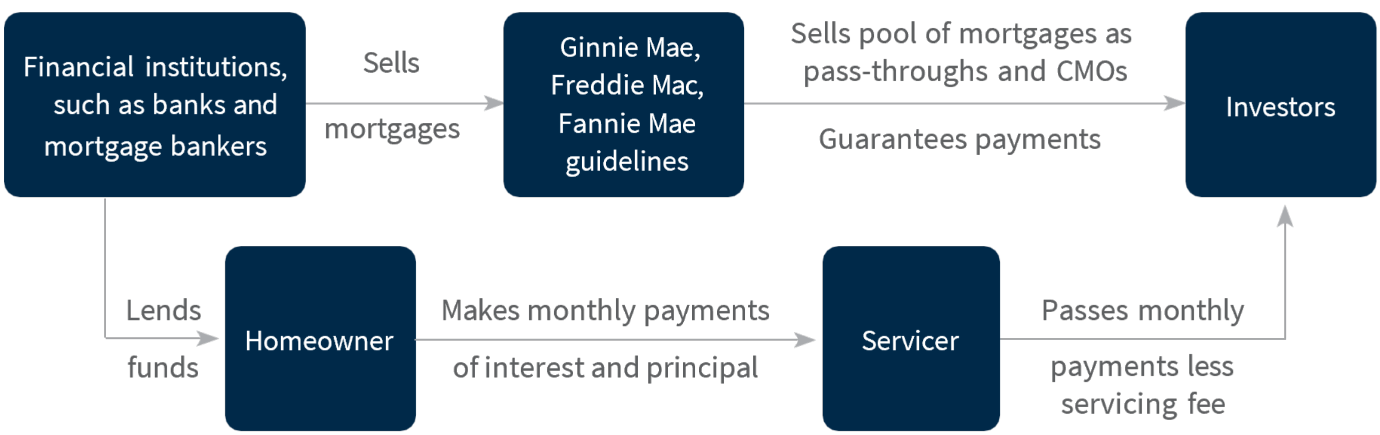
There is so much the market does not know, yet there is one thing that remains clear. Treasury yields are elevated, so many fixed income product curves are also elevated. For example, the corporate and municipal curves are not only elevated in yield, but they are also upward sloping, thereby providing investors with incrementally more yield when taking on longer maturities or more interest rate risk. At the same time, investors are still leery of future interest rate direction and benefit from the sticky high rates afforded on the short end of the curve.

Fixed income strategies are abundant and appealing for a myriad of investor types. The most important takeaway is that income opportunities have been created by the financial market indecisiveness, unusual yield curve behavior, and generally high interest rates.

MORTGAGE-BACKED SECURITIES

To help explain how a mortgage-backed security works, consider a conventional 30-year mortgage loan to purchase your home. The borrower typically agrees to pay it back in monthly installments, comprising principal paydown and interest components – and usually has the right to pay back more than the monthly agreed-upon amount, an exercise that would shorten the life of your loan. This is a prepayment of the principal borrowed. The borrower may also sell the house before the 30-year term to move to another location or refinance your mortgage to lock in a lower rate. In those incidents, the borrower may pay their mortgage in full, a prepayment of the total principal borrowed. Understanding the basic principles of a mortgage loan may help to understand the process of how mortgage-backed securities function.

MORTGAGE-BACKED SECURITIES PROCESS



Mortgage-backed securities are subject to pre-payment risk as well as market and interest-rate risk.

Mortgage-backed security issuers generally combine thousands of mortgages into one pool. Investors purchase a pro-rata share of these large mortgage pools. Unlike conventional bonds, where the full face value is returned at maturity (or sometimes on a call date), a mortgage-backed pool may return a portion of the principal (face value) to the investor over the holding period. This results from some underlying mortgages inside the pool of mortgages prepaying principal. Since a scheduled interest payment may include a portion of principal, the holder of a mortgage-backed security may see their investment or purchased principal get smaller over time. For example, a $10,000 mortgage-backed security investment that is part of a pool with 30% of the underlying mortgages that have paid off over five years is now a $7,000 investment. This investor will have received $3,000 of returned principal plus the interest earned over the first five years. They now would be earning interest on $7,000 of current face value.

The principal returned during the holding period marks the most significant variation from other fixed income products. The pools created by government agencies, such as Fannie Mae or the Federal Mortgage Loan Corporation, carry government support. The speed at which the underlying mortgages pay off affects the performance of the security they combine to make. Yields on securities sold at a discount typically go up with quick prepayments as investors get par dollars for a discounted investment. Conversely, quick prepayments can negatively affect premium investments as investors receive par dollars after paying a premium. The longer the premium dollars remain working for the investor, the better the return is typically.

Several factors can affect a mortgage security's average life, and investors should understand the variability of mortgage principal prepayments. However, the high credit quality and vast market features can appeal to a variety of account types, such as retirement accounts that can roll prepayments and interest back into the market efficiently. The current offerings may provide investors with income greater than 5% with the assurance of solid credit.

SAMPLE FNMA MBS OFFERING

Coupon: 5.0%; Stated Maturity: 3/25/2055; Price $99.0; Fannie Mae 6.5% collateral; 7.388% weighted average coupon

	0	+300	+200	+100	-100	-200	-300
Speed	323 PSA	111 PSA	136 PSA	171 PSA	763 PSA	1055 PSA	1241 PSA
Average Life	2.8	17.5	14.4	7.3	1.4	1.1	0.97
First Pricipal	Jun'25	Oct'40	May'37	Jun'25	Jun'25	Jun'25	Jun'25
Last Pricipal	Nov29	Feb'55	Feb'55	Feb'55	Dec'26	Aug'26	Jun'26
Yield	**5.32%**	**5.11%**	**5.12%**	**5.17%**	**5.57%**	**5.70%**	**5.78%**

Source: Raymond James for illustrative purposes only.

Although the yield does not fluctuate a great deal, the time the initial investment is at work can. The slower the speed, the longer the average life or average time that it takes for the initial principal investment to be returned. As prepayments speed up or slow down, the window of principal prepayment contracts or expands. The speeds are estimated based on historic views on how the underlying collateral may prepay as interest rates rise or fall. The base case or [0] is the expected characteristics of this offering under expected conditions. The principal invested will have an average life of 2.8 years and return a 5.32% yield.

Additional information is available on raymondjames.com.

CORPORATE SECTOR – YIELD AND DIVERSIFICATION

Investment-grade corporate bonds have been a staple product for credit-conservative investors looking for a little more yield while maintaining acceptable risk levels. The high-quality investment-grade ratings in the Baa to A credit range reflect low average default rates. Looking from a "non" default side, ~99% of the issues do not wind up in default, a comfort level for many investors. High-quality corporate bonds boast a good credit rating as tracked and documented by Moody's Rating Service.

Corporate Cumulative Default Rate Average 2014-2023

	Year 1	Year 5
A-rated	0.03%	0.19%
Baa-rated	0.11%	1.02%

Non-Default Rate

	Year 1	Year 5
A-rated	99.97%	99.81%
Baa-rated	99.89%	98.98%

sources: Moody's Rating US Public Finance; Raymond James

Economic cycles have interest rate highs and lows, and these swings can be reflected in varying corporate yields. In addition, availability, real risks, and perceived risks may alter the spread over corresponding Treasury rates where corporate yields trade. In general, the lower the credit rating – the higher the risk – the higher the yield. Conversely, the higher the credit rating – the lower the risk – the lower the yield. Historically speaking, the financial and energy sectors tend to trade wider (higher yields than other corporate sectors).

This is where the current market conditions are allowing corporate investors the opportunity to diversify into various sectors without giving up a lot of yield. Traditionally, tighter trading (lower yield) sectors like industrials and utilities can be added at yield levels closer to traditionally wider (higher yield) trading sectors like banks and other financial names. For example, within the technology sector, the well-known brand name issuer Apple, which carries a Aaa/AA+ rating, was offered at comparable levels to other equally highly rated bonds.

The corporate fixed income trading desk has recognized several new issues that trade cheaper (higher yield) to outstanding bonds from the same issuer and they can tend to stay wider spread (higher yield) for a time after issuance before converging to like spreads. Raymond James' financial advisors can keep clients apprised of opportunities within the corporate sector that allow clients to expand diversification while obtaining the best available yields.

The final maturities on most corporate bonds are shorter than many other sectors, as a vast majority of issues originate within 10 years. With the corporate yield curve exhibiting an upward sloping trend, investors are compensated for duration risk. As such, the sweet spot of the corporate curve is between the five and 10-year maturity range. Although the market size and bonds outstanding are much smaller, some investors have capitalized on even higher yields offered as far out as 20 years.

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OPPORTUNITIES IN MUNICIPAL BONDS

It has been a year of volatility for fixed income, especially in the month following Liberation Day. While recently calming down, the consequence of the year's municipal market volatility has been higher yields. During this period, the municipal curve has steepened by nearly 70 basis points as measured by the 1 to 30-year spread on the AAA Bloomberg municipal curve. This means that investors are increasingly rewarded (in the form of higher yields) for extending out into longer maturity bonds.

The reshaped municipal curve has led to yields that have been available only a few times over the past 10+ years. The intermediate and long maturities offer considerable value, especially for investors in the highest federal tax brackets. 4% coupon bonds, that return beneficial tax-free cash flow, can be offered at, near, or below par price levels. Even 5% coupons carry lower premium prices. Opportunities to purchase high-quality, high-coupon municipal bonds with attractive yields do not present themselves often and tend to disappear quickly.

To highlight the opportunity that is currently available in municipal bond portfolios, the table shows a few sample AA-rated portfolios and the corresponding offered yields. Good value is available across the curve, but with an increase in taxable equivalent yield (TEY) of ~200 basis points when moving from the 5 to 10 year to the 20 to 30 year portfolio. A TEY of over 8% for an AA-rated portfolio is compelling for investors looking for attractive returns in a high-quality credit. Over the past 50+ years, AA-rated municipal bonds have a "non-default rate" of 99.98% over an average 10-year period (Source: Moody's Default Study, 1970-2023).

AA-Rated Municipal Portfolio Yields

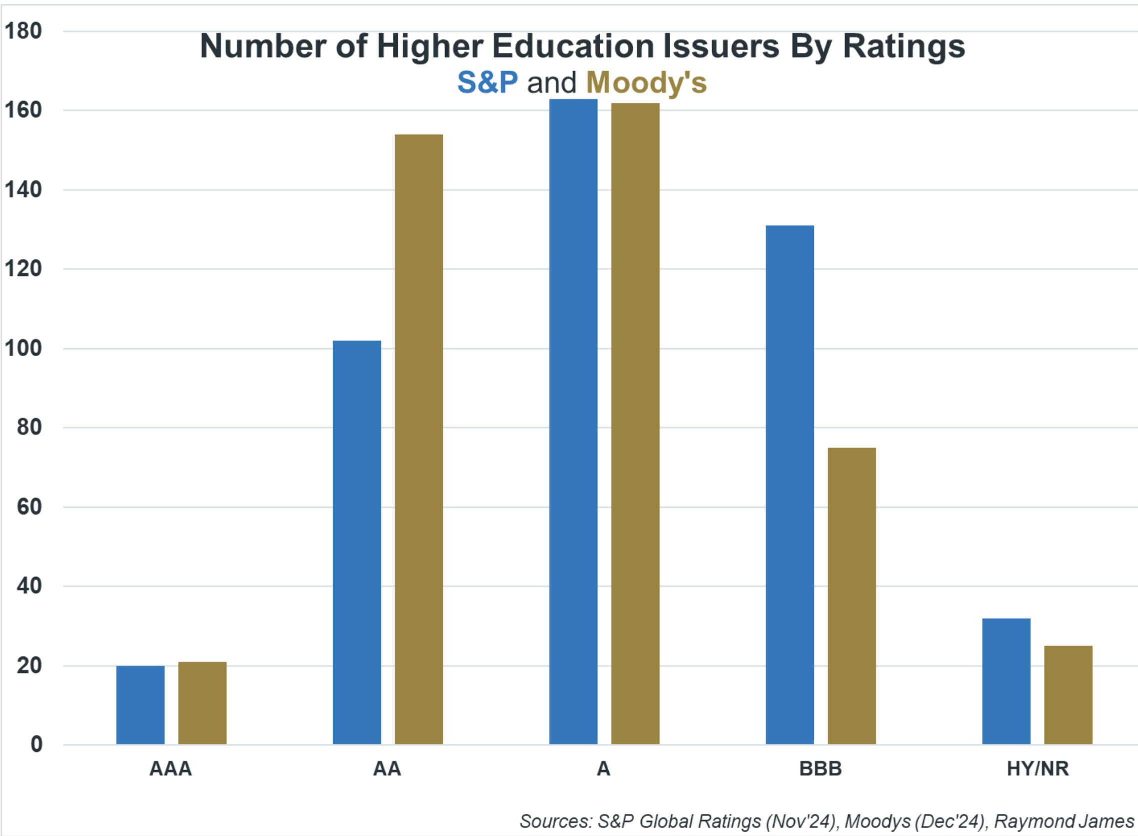
Maturity Range (Years)	Yield to Worst	TEY*
5 to 10	3.40%	5.74%
10 to 20	4.08%	6.90%
20 to 30	4.74%	8.00%

**TEY at 40.8% tax bracket. Yields are illustrative only using Bloomberg BVAL index yields. As of 5/19/25.*

Timing the market and finding the perfect entry point is a challenging task. Without guarantees on timing the market, locking in the attractive yields that are currently available may prove to be a solid long-term strategy. Lock into higher yields for longer. This opportunity might last 5 more days or 5 more years. Many investors are choosing to lock in high levels of yields for as long as it fits overall strategic alignment.

HIGHER EDUCATION MUNICIPAL ISSUES

The municipal bond market's higher education sector is experiencing significant shifts due to changes in enrollment trends, institutional closures, and federal policy adjustments. Enrollment in undergraduate programs has declined from a peak in 2010 but is projected to grow slightly through 2031 despite concerns about rising costs. The municipal bond market includes a wide range of higher ed issuers, with notable activity in the first quarter of 2025. Recent federal policy changes, including funding cuts to certain universities, have increased financial risks. However, the sector remains fundamentally strong, with many institutions maintaining high credit ratings.



THREE KEY POINTS

1. **Enrollment Trends and Institutional Decline**[1] – Undergraduate enrollment has decreased by approximately 8% since 2010, with projections showing a modest increase through 2031 despite rising education costs. The number of postsecondary institutions has declined by 16% since 2010.
2. **Market Opportunity**[2] – The first quarter of 2025 saw a surge in higher education bond issuance, with $11.6 billion in tax-exempt bonds and $800 million in taxable bonds issued. The majority of issuers maintain high credit ratings, making them attractive investments.
3. **Impact of Federal Policy Changes** – Executive Orders have led to substantial funding cuts, affecting university revenues and creating financial uncertainty. Moody's has downgraded its sector outlook to negative, citing increased risks, but notes that demand for higher education remains strong and many institutions still retain high credit ratings.

Given the evolving landscape of higher education bonds, investors should consider several strategies to navigate the increased volatility and risks:

1. **Focus on High-Quality Issuers:** With credit downgrades increasing nominally, investors should prioritize bonds from institutions with strong financials, larger endowments, and stable enrollment trends. Schools with AA-rated or higher credit ratings tend to have greater resilience in uncertain economic conditions. A-rated institutions are appropriate for many portfolios. With the minimal additional credit risk comes additional yield for investors.
2. **Diversify Holdings:** Within the sector, investors can diversify holdings with a combination of public and private universities, along with geographic diversification. Some investors choose an allocation of ~10% in the higher ed sector.
3. **Monitor Policy Changes:** Federal funding cuts and tax-status revisions could significantly impact university revenues. General policy or funding changes, as well as credit quality changes to specific issuers, could warrant portfolio adjustments.
4. **Assess Revenue Stability:** Colleges issuing general obligation bonds use broad university resources to back their debt, while revenue-backed bonds rely on specific streams like tuition, student or facility fees. The wider the revenue stream pledged to debt repayment, the better the protection for bondholders.
5. **Be Prepared for Price Fluctuations:** With heightened sector volatility, bonds may trade at lower prices, presenting potential buying opportunities. Investors looking for entry points should assess whether the current market dip offers value based on long-term fundamentals. Bonds held to maturity (or call) will result in the full return of principal to investors.

[1] U.S. Department of Education, National Center for Education Statistics (NCES)

[2] Municipal Market Analytics / Bond Buyer

PORTFOLIO ALLOCATION STRATEGIES

Portfolio allocation can be driven, at least partially, by an investor's assumptions about the future. Perceived interest rate direction can contribute to decisions on where to position on the yield curve. Since fixed income allocations are often intended to help preserve wealth, timing the market is not a primary focus. However, investors still strive to optimize portfolio performance while staying within risk tolerances and seeking appropriate liquidity. With so many market and environmental variables in play, consideration of some high-level scenarios with regard to interest rate direction and potential positioning may improve strategic options for fixed income.

IF AN INVESTOR'S OUTLOOK IS FOR YIELDS TO MOVE HIGHER…

Short-term bonds present a strategic advantage. As yields move higher and the short bonds start maturing, the proceeds will be reinvested into higher-yielding bonds. Since short-term rates are elevated, investors benefit from higher interim income plus the increased yield levels available as short-term maturities expire and reinvestment yields are put to work in the future, at higher interest rates.

The potential downside in this scenario is that rates do not rise. Short maturity investments still capture the elevated yields; however, as bonds mature, reinvestment occurs in lower-yielding bonds. The opportunity to lock in for longer has expired.

To illustrate this scenario using simplistic math, assume that a 2-year bond yields 4%, an 8-year bond yields 4.5%, and a 10-year bond yields 5%. An investor has a 10-year time horizon and purchases a 2-year bond, earning them 4% per year for 2 years. If the interest rate prediction of higher yields was correct, and now an 8-year bond can be purchased at 6%, the average yield over the 10-year time horizon would be 5.60%. If the 10-year bond yielding 5% was purchased from the start, the average yield would have been 5.00%. By being correct with the prediction and implementing the initial strategy of staying short, the investor earned an extra 60 basis points in yield annually. On the contrary, if this investor's interest rate prediction is incorrect and they have to reinvest into an 8-year bond yielding 3.5%, the average yield over the 10-year timeframe would be 3.6%, meaning the average annual yield would be 140 basis points lower than if the 10-year bond had been purchased from the start.

IF AN INVESTOR'S OUTLOOK IS FOR YIELDS TO MOVE LOWER…

Purchasing longer maturity bonds presents a strategic advantage. Owning bonds with maturity dates farther into the future means that there are no bonds maturing and no reinvestments during a period of lower interest rates. The yield earned on the longer bonds is locked in and unaffected by falling interest rates.
The potential downside is the reverse of the first scenario. Should interest rates rise, there are no maturities to reinvest into the higher levels and the loss is in the potential return that the higher yields offer.

AN ALTERNATIVE OPTION…

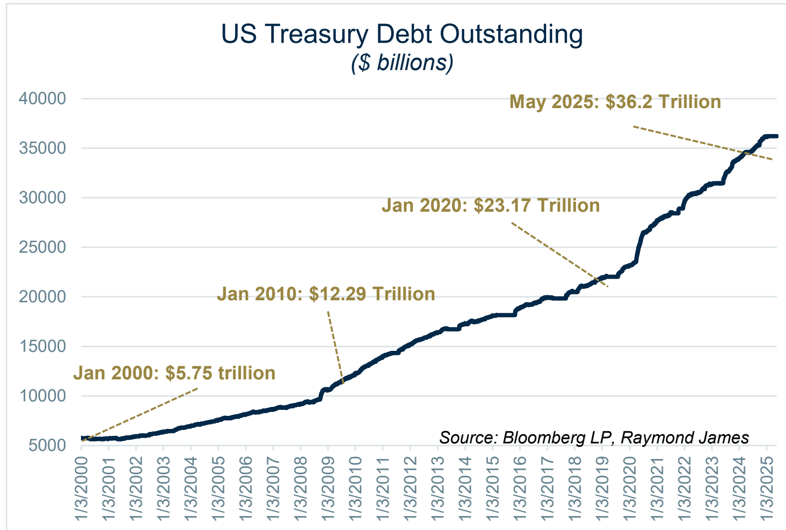
Another option to investing entirely in a long-maturity or short-maturity portfolio is what is known as a barbell strategy. A barbell is a portfolio structure where there is a block of shorter maturities and a block of longer maturities, with nothing in between. For example, 20% of the portfolio is invested in 1 to 2-year bonds, and 80% of the portfolio is invested in 15 to 20-year bonds. The percentages and maturity ranges can vary according to investor preferences. The advantage of a barbell is that it locks in longer-term yields while still providing some near-term liquidity. The near-term liquidity keeps a percentage of the portfolio active or available.

The downside is that a smaller amount of money is invested out longer on the curve, so there is less money that is locked into longer-term yield. Also, a portion of the investment is subject to potentially being reinvested into lower-yielding bonds near-term. As with any strategy, there are tradeoffs so determining what is appropriate involves analyzing the specific goals and risk tolerance of any given investor.

ALSO CONSIDER…

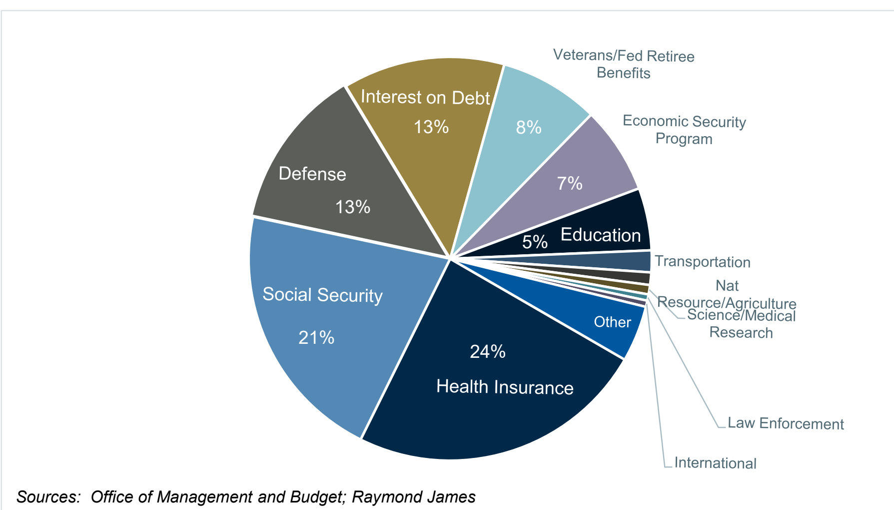
Positioning based on interest rate forecasts is by no means the only option. Individual bonds provide terms that are locked in from the date of purchase, so predicting the direction of interest rates is not necessary to implement a successful fixed income strategy. If the yields available today can achieve long-term financial goals, it can make sense to do so regardless of the interest rate outlook. Bonds purchased now, held to maturity, and barring a default, are not affected by changes in interest rates.

GROWING U.S. DEBT – TROUBLE AHEAD?



The upward sloping Treasury yield curve is a welcome change from the inverted yield curve that lingered for years. The upward sloping curve means that investors are rewarded more for taking on duration. Conversely, the upward sloping history of growing debt is unwelcome and undesirable. The U.S. total public debt outstanding has reached over $36 trillion. The national debt could be compared to your personal debt held on a credit card. It is borrowed money that is accruing interest. Each of the 340 million persons in the population would have to pay $106,486 to pay the debt off. Afterall, we are the nation, and it is our debt. A household of four would have to come up with nearly $426,000, an improbable resolution for most Americans.

The US government now spends ~13% of its budget on interest for this debt. If this were a personal household's credit card debt, spending 13% of a paycheck just for interest seems disproportionately high. Receiving a raise at work would help to remedy the situation by giving that person the ability to pay down some of the debt. In the same way, the nation's gross production could increase and help pay off some of the national debt. However, pay raises and national growth cannot be relied upon to occur.



Sources: Office of Management and Budget; Raymond James

Cutting back on household expenses can slowly lower credit card debt. The U.S. government can likewise reduce its spending. This is likely a little trickier for the government though because finding ways to reduce spending may involve reduction of entitlements which would be politically unpopular. The three largest sectors of US spending are health insurance (including Medicare and Medicaid), Social Security, and defense. Cutting defense is not a viable option and cutting entitlements of healthcare and supplemental retirement income would be poorly received.

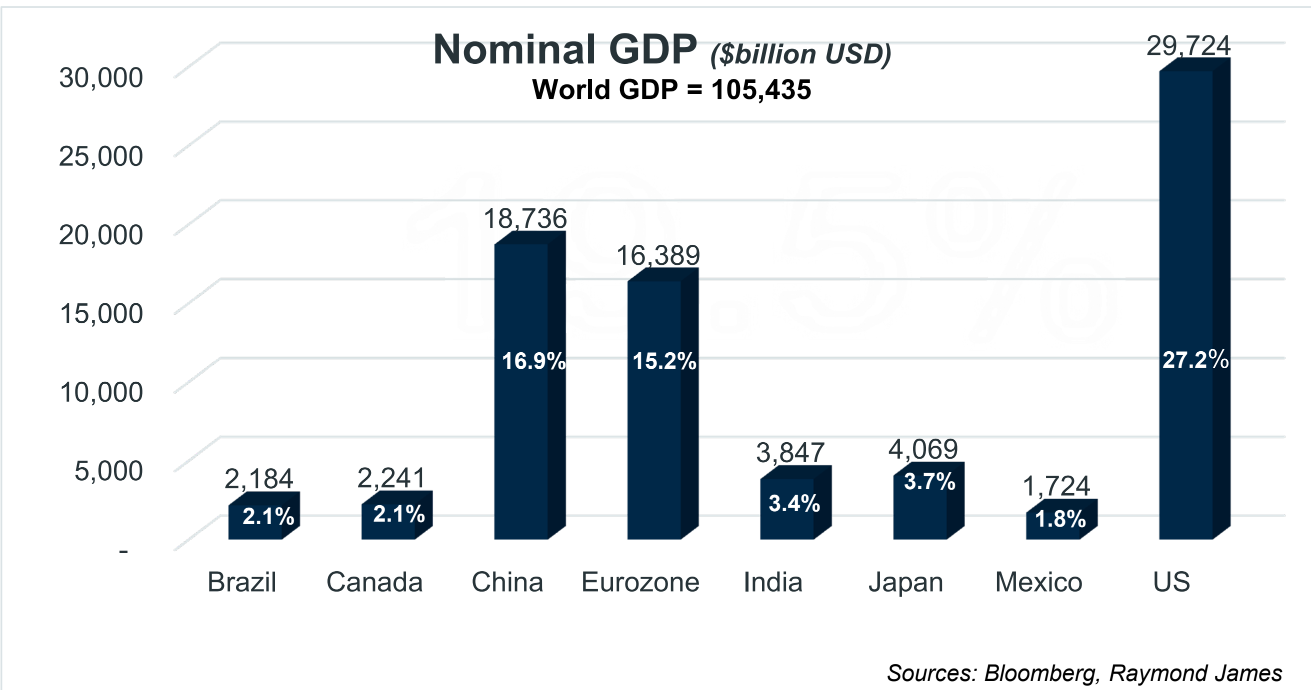
Another solution would be to increase US government revenue by raising taxes. Although the political mantra is often a decree to "tax the rich," there simply are not enough rich people to tax and impact the national debt. Even though the middle class is shrinking, it still represents about 51% of American households and taxing this group would be highly unpopular.

Inflation can also help a nation pay down debt although this could have negative and positive effects. Inflation decreases the spending power of a dollar so although the nominal dollars of debt remain constant, the real value of the debt decreases. Since the value of money is decreasing, the government is effectively repaying debt using currency that is worth less than when the debt was initially incurred.

None of these: deep spending cuts (including entitlements), taxing the middle class, or inflation are popular solutions to our debt problem. Substantial economic growth is welcome but certainly not a guarantee. Although the government has more options than a household with debt, there is a level of debt where there is no point of return. In other words, once the interest on debt becomes too big of a burden to manage based on the nation's revenue, the nation is in trouble.

Moody's is one of the major credit rating companies, along with S&P and Fitch. On May 16, Moody's downgraded the U.S. government's rating from Aaa to Aa1, bringing it in line with ratings from S&P and Fitch. The growing national debt is the primary reason. This has the potential to dampen market sentiment. Given that the U.S. is a consumer-driven economy, consumer sentiment is of utmost importance.

The positive side is that the U.S. remains the largest economy in the world, producing 27% of the world's



gross domestic product. By comparison, the U.S. produces 61% more GDP than the next highest nation which is China. China produces 16.9% of the world's GDP. The U.S. remains the most powerful economic force, military force, and its dollar is the world's currency. The red flags are raised though, and our nation's debt problem needs to be addressed.

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 the principal will be returned. While most individual bonds provide 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 particular situation. Below are listed attributes that may illustrate how various products might work within a portfolio. Identify acceptable risk factors.

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

	PRODUCT ATTRIBUTES	HOW DOES THIS FIT?	ADDITIONAL CONSIDERATIONS
TREASURY	Minimal credit risk. State and local tax exempt.	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.	Do I need more principal assurance? 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.	The higher the tax bracket, the greater the tax benefit. The high credit quality is often viewed favorably.	Diversification can be 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.	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 can be 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.	The breadth of the corporate market can allow for extensive diversification from credit ratings to multiple sectors. Generally liquid. 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	This may benefit the portfolio as a higher yielding component with more risk versus true fixed income alternatives.	Preferred'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.
MORTGAGE-BACKED SECURITIES	High quality, taxable alternative	Can benefit by adding yield with a high quality underlying backing. Many variations provide wide scope of choices.	Works differently than securities above as principal is paid down during the holding period as opposed to in lump sum at maturity or with a call.

FIXED INCOME STRATEGY RESOURCES

Doug Drabik - Sr. Fixed Income Strategist
Drew O'Neil - Fixed Income Strategist
Rob Tayloe - Fixed Income Strategist
Keith Parrish– Jr. Fixed Income Strategist

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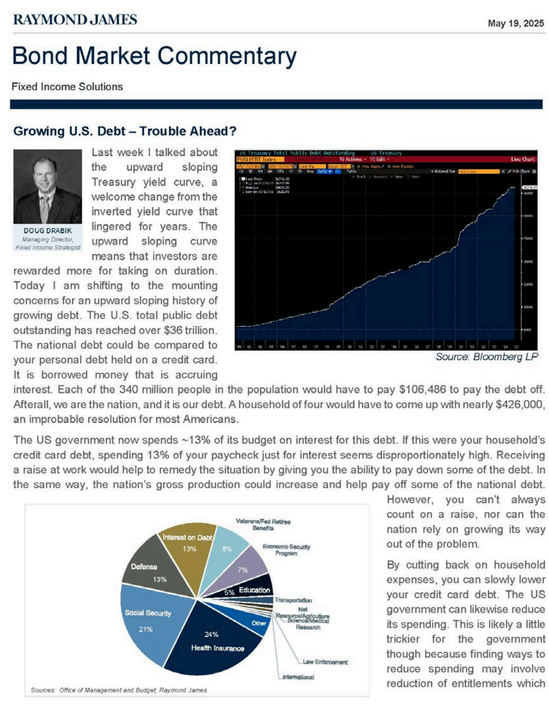
RAYMOND JAMES

May 19, 2025

Bond Market Commentary

Fixed Income Solutions

Growing U.S. Debt – Trouble Ahead?

DOUG DRABIK
Managing Director, Fixed Income Strategist

Last week I talked about the upward sloping Treasury yield curve, a welcome change from the inverted yield curve that lingered for years. The upward sloping curve means that investors are rewarded more for taking on duration. Today I am shifting to the mounting concerns for an upward sloping history of growing debt. The U.S. total public debt outstanding has reached over $36 trillion. The national debt could be compared to your personal debt held on a credit card. It is borrowed money that is accruing interest. Each of the 340 million people in the population would have to pay $106,486 to pay the debt off. Afterall, we are the nation, and it is our debt. A household of four would have to come up with nearly $426,000, an improbable resolution for most Americans.

Source: Bloomberg LP

The US government now spends ~13% of its budget on interest for this debt. If this were your household's credit card debt, spending 13% of your paycheck just for interest seems disproportionately high. Receiving a raise at work would help to remedy the situation by giving you the ability to pay down some of the debt. In the same way, the nation's gross production could increase and help pay off some of the national debt. However, you can't always count on a raise, nor can the nation rely on growing its way out of the problem.

Sources: Office of Management and Budget; Raymond James

By cutting back on household expenses, you can slowly lower your credit card debt. The US government can likewise reduce its spending. This is likely a little trickier for the government though because finding ways to reduce spending may involve reduction of entitlements which

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. Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default or principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Short-term bonds with maturities of three years or less will generally have lower yields than long term bonds which are more susceptible to interest rate risk. Credit risk includes the creditworthiness of the issuer or insurer, and possible prepayments of principal and interest. 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. Individual investor's results will vary. Moody’s rates more than 10,000 investment-grade municipal issuers, has tracked rating changes over the past 50 years and looked at rating changes (transitions, both year-over-year and multi-year). Each year, Moody’s summarizes the number of rating changes, up and down, along with the number of notches in movement.

The Personal Consumption Expenditures Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The change in the PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

The Consumer Price Index (CPI) is a price index representing a weighted average market basket of consumer goods and services purchased by households. Changes in measured CPI track changes in prices over time.
A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond.

VIX Index: financial benchmark designed to be an up-to-the-minute index estimate of the expected volatility of the S&P 500 Index, and is calculated by using the midpoint of real-time S&P Index (SPX)) option bid/ask quotes.

MOVE Index: this is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average volatilities on the CT2, CT5, CT10 and CT30. (weighted average of 1m2y, 1m5y, 1m10yand 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).

S&P Index: is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

U.S. Bloomberg Aggregate Bond Index (U.S. Corporate Investment Grade/LUACTRUU): Measures the investment grade, taxable corporate bond market. It includes USD demoninated securities publicly issued by US and non-US industrial, utility and financial issuers.

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880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM