Fixed Income Quarterly

Market Perspectives from Fixed Income Solutions

Fixed Income During a Zero Interest Rate Policy

For over seven years, from December 2008 through December 2015, the United States central bank (Federal Reserve or Fed) set target short term interest rates at around 0.00%. This policy is also termed as Zero Interest Rate Policy (ZIRP). The purpose was to induce economic activity through low cost borrowing to create consumer and business access to inexpensive credit.

More than a decade later, the Fed has once again embarked on ZIRP, regardless that the impact of the first program is still not well-defined. What is known is that the Fed’s inaugural ZIRP triggered a new way that the Fed conducts business. The Fed adopted a 2.00% inflation stance and began massive open market purchases that took their balance sheet from ~$900 billion in 2008 to over $4.5 trillion by 2015.

Japan initiated ZIRP in 1990 with little evidence it has produced significant positive results. Even in the United States, it took massive purchase programs to stimulate the economy. Eventually, unemployment was the lowest it has been in 50 years and inflation hovered near the Fed’s 2.00% target. So what’s the problem?

The economy, although displaying moderate growth, never demonstrated vigorous progress or enough to warrant significant rate increases. Low interest rates coupled with high savings rates basically renders the policy ineffective. Consumers are amassing cash which means less money is being invested or being used to buy goods and services. One could argue that consumer financial behavioral thinking is distorted. Consumers can become sensitive to even modest rate increases after a 7 year acclimation to 0.00% interest rates. While consumers show hesitancy, corporations exploit the situation and issue massive debt while leveraging balance sheets. In addition, this type of market can influence investors to “other” types of investments such as high yield bonds or other riskier assets, driving investors outside of their risk parameters. Although inflation hasn’t meaningfully surfaced in goods & services, asset inflation has propped up both the bond and stock markets.

Disciplined portfolio asset allocation is a must. The fixed income portion of the portfolio typically serves as the primary means to preserve capital. As investors, we have been spoiled by the huge total returns generated in fixed income due to continual falling interest rates (resulting in appreciating bond prices) since the early 1980s. Now with historic low rates and the central bank keeping it that way, focus shifts back to fixed income’s typical primary purpose: principal preservation. Now is not a time to expand risk parameters. This report will reveal some actionable ideas and methods of managing your fixed income allocation through the Fed’s latest ZIRP period.
Back to School – Bonds 101

Market conditions may force fixed income’s primary purpose to the surface. Interest rates are near historic lows and the void of near-term price appreciation will likely nullify the tremendous total returns fixed income investors have enjoyed for the past many years. However, the primary purpose of principal preservation will remain paramount in portfolio asset allocations. So let’s review the very basics of fixed income:

What is a bond? A bond is essentially a loan. If an entity (i.e., a municipality or company) needs to borrow money, they can issue bonds. When purchasing a bond, you are essentially loaning that entity money. In return, they agree to pay you interest on the borrowed money for as long as the bond is outstanding. They also agree to pay back the loan (bond) at the end of an agreed upon term. The interest paid along the way is called a coupon, which is defined as a percentage of the face amount of the bond. The term of the loan ends on a maturity date, which is the date at which the entity pays off the loan or returns the borrowed principal back to you, the investor.

For example, let’s say you own $100,000 in face value of a State of Georgia bond that carries a 3.00% coupon that matures on 8/1/2030. This means that you loaned the State of Georgia $100,000, and in return they agree to pay you $3,000 per year (3% x $100,000) and then return the $100,000 they borrowed from you on 8/1/2030.

Price. A bond’s price will move up or down as it becomes more or less attractive relative to other options. One of the main drivers of price change in bonds is interest rate movement. If you own a bond with a fixed interest rate (coupon), and interest rates fall, your bond’s market price will go up. In the example above, where a bond pays a 3.00% coupon, if interest rates were to fall to a point where the State of Georgia could borrow at 2%, the price of your bond is going to rise because you own a bond paying 3.00% in a 2.00% interest rate environment. Your bond is now relatively more attractive so the price has risen.

When thinking about the price of a bond, it is sometimes helpful to think of a bond as a basket of separate payments, instead of thinking of it as a single security. So let’s say you are purchasing $10,000 of a 5-year bond that pays a 5.00% coupon annually. You are really purchasing five $500 payments and one $10,000 payment. That same bond with a 2.00% coupon would be five $200 payments and one $10,000 payment. Thinking about a bond this way makes it easier to understand dollar price differences when comparing two bonds. All else being equal, the 5.00% bond is going to have a higher price because it delivers $500 versus $200 in annual interest payments. Does a higher bond price mean the bond is expensive? Does a higher bond price suggest that you are going to lose money? Is a lower dollar priced bond always a better value? No, you are just purchasing a different basket of payments, which is why they will have different dollar prices.

Yield. The yield on a bond is the annual return an investor will earn, if held until maturity. It differs from the coupon in that the coupon is fixed and defines the cash flow for a bond; whereas, yield is determined by a bond’s price. Yield is a comprehensive measurement of annual return on the investment.

What is credit risk? Credit risk is intended to define an issuer’s financial strength and thus their ability to make timely interest payments and pay off their debt. An issuer with higher credit risk (a riskier borrower) is going to have to pay higher interest rates in order to borrow money, to compensate the lender (you, as the bond owner) for accepting more uncertainty of payment.

What is interest rate risk? Sometimes called duration risk, interest rate risk defines a bond’s price movement due to interest rate changes. If interest rates rise, a bond’s price will fall and conversely if interest rates fall, a bond’s price will rise. This sensitivity to interest rates is measured by what is called duration, where the higher the duration on a bond, the more sensitive it will be to changes in interest rates.

What is a call? If a bond is callable, it means that the issuer has the option to redeem the bond at a date prior to the maturity date. For example, a bond could be issued with a maturity date of 1/1/2035 with a call option on 1/1/2030. This means that on 1/1/2030, the issuer has the option of paying off the loan early. As a bond holder, this means that you will miss out on those 5 extra years of coupon payments. When a bond is callable, you will see two different yields: YTC (yield-to-call) and YTM (yield-to-maturity). These yields will tell you what you earn if the issuer chooses to call the bond early and what you will earn if it goes until maturity. As an investor, always be aware of the worst-case-scenario, known and displayed as the YTW (yield-to-worst), and make sure you are comfortable with that scenario before purchasing a bond.
The Acceleration of Central Bank Intervention

The Fed and other major central banks have intervened like never before. Printing money has been shown to prop up both the stock and bond markets and likely prevented the economy from a hard crash. Never before, not even after the Great Recession of 2009, have the central banks’ policies been so loose. Many experts suggest that the price that will be paid is long term, hindering expectations for a robust recovery.

Sources: Bloomberg LP, Raymond James
**2020 Timeline**

This year has proven to be very volatile, creating investor uncertainty. The following chart helps to align events in perspective and highlight how the Government’s and Fed’s actions have affected our markets. It is evident the short-term effects have impacted both the bond and stock markets, spreads, unemployment and investor behavior. However, many of these are temporary support programs and their long-term impact is yet another unknown.

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### 2020 Timeline

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Unemployment Rate</th>
<th>Treasury Yields 1yr / 10yr</th>
<th>DJIA</th>
<th>10 Year Muni/Treas Ratio</th>
<th>10 Year BBB Corp Spread</th>
<th>FOMC Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/15/20</td>
<td>Jan 9: WHO announces coronavirus; Jan 21: 1st US case</td>
<td>3.6</td>
<td>154% / 1.78% / 1.78%</td>
<td>29,030</td>
<td>74%</td>
<td>128bp</td>
<td>1.50%-1.75%</td>
</tr>
<tr>
<td>02/15/20</td>
<td></td>
<td>3.5</td>
<td>1.47% / 1.59%</td>
<td>29,398</td>
<td>76%</td>
<td>125bp</td>
<td>1.50%-1.75%</td>
</tr>
<tr>
<td>03/15/20</td>
<td>CARES ACT &amp; other stimulus provide $2trillion, Medicare Advance Payments distributed</td>
<td>4.4</td>
<td>0.32% / 0.96%</td>
<td>23,185</td>
<td>238%</td>
<td>217bp</td>
<td>(3rd) 1.00%-1.25% (15th) 0.25%</td>
</tr>
<tr>
<td>04/15/20</td>
<td></td>
<td>14.7</td>
<td>0.15% / 0.63%</td>
<td>23,504</td>
<td>178%</td>
<td>229bp</td>
<td>0.00%-0.25%</td>
</tr>
<tr>
<td>05/15/20</td>
<td></td>
<td>13.3</td>
<td>0.14% / 0.64%</td>
<td>23,685</td>
<td>160%</td>
<td>231bp</td>
<td>FOMC Rate 0.00%-0.25%</td>
</tr>
<tr>
<td>06/15/20</td>
<td></td>
<td>11.1</td>
<td>0.17% / 0.72%</td>
<td>25,763</td>
<td>113%</td>
<td>177bp</td>
<td>FOMC Rate 0.00%-0.25%</td>
</tr>
<tr>
<td>07/15/20</td>
<td></td>
<td>10.2</td>
<td>0.14% / 0.63%</td>
<td>26,870</td>
<td>123%</td>
<td>154bp</td>
<td>0.00%-0.25%</td>
</tr>
<tr>
<td>08/15/20</td>
<td>May 26th: Fed begins purchase of corp. bonds - $250b program (part of CARES Act)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>09/15/20</td>
<td>Hospital liquidity declines paying back medicare advances? Affects municipal debt?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10/15/20</td>
<td>Fed begins purchase of corp. bonds - $250b program (part of CARES Act)</td>
<td></td>
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<tr>
<td>11/15/20</td>
<td>Pending debate in congress to extend unemployment bonus through December, ranges from $400-$600</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>12/15/20</td>
<td>Election Day: may influence policy and market direction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Federal Reserve, Bloomberg LP, Raymond James
### Federal Reserve Facilities

<table>
<thead>
<tr>
<th>Announcement Date</th>
<th>Support</th>
<th>Initial expiration date</th>
<th>Expiration date</th>
<th>Max Authorized Amount $bil</th>
<th>Total Loans Outstanding $bil</th>
<th>Support from Cares Act $bil</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/17/2020</td>
<td>Flow of credit to businesses</td>
<td>3/17/2021</td>
<td>3/17/2021</td>
<td>-</td>
<td>$0.3</td>
<td>-</td>
</tr>
<tr>
<td>4/9/2020</td>
<td>Small &amp; medium-sized businesses</td>
<td>9/30/2020</td>
<td>12/31/2020</td>
<td>$600</td>
<td>$0.1</td>
<td>$75</td>
</tr>
<tr>
<td>3/18/2020</td>
<td>Households and other investors demands for redemptions in money market funds</td>
<td>9/30/2020</td>
<td>12/31/2020</td>
<td>-</td>
<td>$13.7</td>
<td>-</td>
</tr>
<tr>
<td>4/9/2020</td>
<td>State &amp; local governments</td>
<td>12/31/2020</td>
<td>12/31/2020</td>
<td>$500</td>
<td>$1.2</td>
<td>$35</td>
</tr>
<tr>
<td>4/9/2020</td>
<td>Effectiveness of SBA's Paycheck Protection Program</td>
<td>9/30/2020</td>
<td>12/31/2020</td>
<td>$659</td>
<td>$70.7</td>
<td>-</td>
</tr>
<tr>
<td>3/23/2020</td>
<td>Credit needs of American households &amp; businesses</td>
<td>9/30/2020</td>
<td>12/31/2020</td>
<td>-</td>
<td>$1.8</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Corporate Credit Facilities:</td>
<td></td>
<td></td>
<td>$750</td>
<td>$12.0</td>
<td>$75</td>
</tr>
<tr>
<td>3/23/2020</td>
<td>Credit to employers through bond and loan issuances.</td>
<td>9/30/2020</td>
<td>12/31/2020</td>
<td>$50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3/23/2020</td>
<td>Credit to employers by providing liquidity to outstanding corporate bonds</td>
<td>9/30/2020</td>
<td>12/31/2020</td>
<td></td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>3/23/2020</td>
<td>Flow of credit to consumers and businesses</td>
<td>9/30/2020</td>
<td>12/31/2020</td>
<td>$100</td>
<td>$1.6</td>
<td>$10</td>
</tr>
</tbody>
</table>

### CARES Act $2 Trillion Stimulus Package

*in $billions*

- Large Corporations, $510
- Small Businesses Loans & Grants, $377
- Support & Safety Net, $42
- State/Local Governments, $150
- Health-Related, $153
- Education, $40
- One-time Checks, $293
- Transportation Providers, $71
- Unemployment Benefits, $268
- Cut Business Tax, $241
- Reduce Individual Taxes, $20
- Other Spending, $15

Sources: Committee for a Responsible Federal Budget (Mar-25) Raymond James
Case Studies – Actionable Ideas During the Fed’s Zero Interest Rate Policy

Case Study I: Generating Cash Flow

THE SCENARIO:
For most of the 20th century, individuals retired and lived off of a pension, social security benefits and any savings they had accumulated along the way. At death, whatever was left went to their heirs or charity of choice; however, that seemed to change in the 1990s. Great gains in the equity market and generous income earned on fixed income advocated the idea that your principal should remain untouched in retirement. You should be able to live off of the income in perpetuity. That though, was an aberration, not the norm. Most retirees living in today’s interest rate environment will be compelled to dip into their principal to meet their cash flow needs and survive their retirement years.

CONSIDERATIONS:
How to best generate safe and consistent cash flow in today’s investment landscape is a topic on many investor’s minds, in particular those in or near retirement. Historically, reasonable yields on investment grade fixed income securities provided a dependable income stream that barring a default, could be counted on to protect principal and provide cash flow. The current low interest rate environment makes surviving on income alone a more difficult task. However, while the yield may not be where we would like, that does not mean that we cannot create ample cash flow in high quality investments. Investors do not need to reach outside their risk tolerance to reach desired yields. Remember, yield is what you earn, while cash flow is a function of the coupon rate.

STRATEGY:
Assuming that the fixed income portion of a portfolio for a retiree is a significant allocation to first and foremost protect principal, how do we meet cash flow needs? Simple, we buy it. While yields are at historic lows, many existing and newly issued bonds still have coupons at rates above the market. These bonds trade at a premium price to par ($1000 per bond), so that the net return on the investment is in line with market yields. By paying a premium you are buying above market cash flows.

For example, you buy a bond with a 5.00% coupon due in 10 years. The market yield for this bond is 2.00% which results in paying a premium price for the above market cash flow (5.00%). Every time you receive a coupon payment at the annual rate of 5.00%, part of the cash flow is income and the rest is a return of the premium you paid up front. So the cash flow is made up of both income and return of principal. At maturity you receive the bond’s face value, which in this case, will be less than your initial investment amount. However, you did not lose that money, it was received via larger cash flows to support your cash flow needs.

Portfolios can be constructed with full knowledge of exactly what money is available to meet cash flow needs and what principal will be intact at maturity. Higher coupons do not lose but rather use a small portion of principal which is distributed in timely interest payments during the life of a bond. A varied strategy might include designing the portfolio with maturities at specified times to meet larger cash flow needs. The take-away is that it can be custom designed and tailored to your individual situation. There is no better way to control all the variables, customize cash flow and enjoy the safety of investment grade fixed income. Although there are other ways to generate cash flow, care should be taken to avoid yield chasing in ways that increase risk of principal loss, especially in retirement.
Case Study II: Low Hanging Fruit

THE SCENARIO:
The current environment offers interest rates near historic lows across the curve. In addition, the Fed is telling us that they have no intention of raising short-term interest rates at least through 2022. In a world environment abundant with uncertainty, this information provides a window of transparency and perhaps a small but meaningful means to exploit the knowledge.

CONSIDERATIONS:
Your fixed income allocation is meant to be the portfolio’s more stable and predictable assets. Many investors design their fixed income allocation with the intent of holding these line items to maturity, thus reducing the risks associated with market volatility while knowing the income, cash flow and designated date that the face value will be returned.

STRATEGY:
The suggested bond sell (see chart below) has a maturity within the Fed’s proclaimed period where they do not plan on raising short-term interest rates. This matters because we have been told the Fed’s intentions and therefore have some assurance that waiting to reinvest at maturity is not likely to bear higher reinvestment yields. Also, the demand for high quality short-term investments is providing high bid prices.

Simple math: the chart displays the interest income that would be received if a bond was held to maturity ($5,831 interest income). So why sell and reinvest at a 1.604% yield ($2,795 interest income over the exact same number of days)? Because the market is also going to pay you $3,966 for the sold bond. The market is paying you 63% of the income (yield) waived via a profit, by selling now ahead of the stated maturity. The profit plus the interest earned over the exact same number of days will gross 16% more income ($6,761 vs. $5,831).

This is an extension swap. The new bond has a longer maturity than the bond sold (4.6yrs vs. 1.4yrs). The additional 3.2 years is a very modest extension in a rate environment realistically expected to stay very low for a very long time. If you thought interest rates would be significantly higher in April 2022 (the maturity date), you would not want to execute this trade but rather wait until maturity to redeploy the assets.

What makes this an attractive consideration counts on the Fed’s rate assertion and the aggressive demand for very short bonds. In some ways, this example may underestimate the benefits. The proceeds from selling this bond would allow a larger reinvestment (~$103k) which would produce more interest income than the example displays. Furthermore, there are story bonds, selective bonds whose true value has been discounted due to their struggling sectors, which could also increase the income benefits. It is difficult to find opportunities in this historically low rate environment, but conditions are ripe for this low hanging fruit to benefit many portfolios.

<table>
<thead>
<tr>
<th>Amount</th>
<th>YTW</th>
<th>Maturity</th>
<th>Days To Maturity</th>
<th>Interest on Current Holdings</th>
<th>Interest on New Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell</td>
<td>100,000</td>
<td>3.381%</td>
<td>4/15/2022</td>
<td>623</td>
<td>5,831</td>
</tr>
<tr>
<td>Buy</td>
<td>100,000</td>
<td>1.604%</td>
<td>7/15/2025</td>
<td>2,795</td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td></td>
<td>3,966</td>
<td></td>
</tr>
<tr>
<td>623 Day Net</td>
<td>5,831</td>
<td>6,761</td>
<td>16%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Portfolio Purpose

**Taking a Look at the Numbers:** Statistics can help to clarify the role of various asset classes when you are constructing a portfolio. Fixed income is often sought out to be the stable and consistent asset class and historical returns might help explain why they have been so. The table below highlights annual returns from 1989-2019. Several strong takeaways can be extracted from the data, where the most compelling observations may be reflected in the bottom two rows. Municipal bonds, corporate bonds, and equities have all had a similar number of negative total return years, although the severity of those years is glaringly different (see chart below). The average negative total return with bonds has been around -3.00% versus -14.6% in equities. Conversely, equities can exhibit much higher return years versus the fixed income categories. Equities have higher highs and lower lows so the greater risk assets typically serve the essential purpose of building one’s wealth. Less risky fixed income assets then serve to protect that accumulated wealth. Depending on where you are on the investment timeline (building wealth or preserving it), the percentages you dedicate to each asset class and the purpose will assist in building your appropriate balance.

<table>
<thead>
<tr>
<th></th>
<th>Corporate Bonds</th>
<th>Municipal Bonds</th>
<th>Equities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Total Return</strong></td>
<td>7.2%</td>
<td>5.9%</td>
<td>12.1%</td>
</tr>
<tr>
<td><strong>Best Year</strong></td>
<td>22.2%</td>
<td>17.5%</td>
<td>37.6%</td>
</tr>
<tr>
<td><strong>Worst Year</strong></td>
<td>-4.9%</td>
<td>-5.2%</td>
<td>-37.0%</td>
</tr>
<tr>
<td><strong># of Negative Years</strong></td>
<td>6</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td><strong>Average during Negative Years</strong></td>
<td>-2.6%</td>
<td>-3.1%</td>
<td>-14.6%</td>
</tr>
</tbody>
</table>


**Wealth preservation.** This investor has achieved a level of wealth which allows them their desired chosen lifestyle. The primary objective is principal preservation, making credit quality important. Income generation is a secondary benefit and is never prioritized above high quality and safety of principal.

**Retirement income.** This investor is already in or planning for retirement and plans to rely on the income generated from their fixed income investments to partially fund their retirement. Cash flow needs dictate specific coupon selection and maturity structure. By example, an investor requiring 4.00% cash flow cannot achieve 4.00% yields in this market but can design a portfolio with above market coupons (purchasing a 4.00% coupon bond yielding 2.00%). A portion of the cash flow provides use of (not loss of) a portion of their principal.

**Identify Your Objectives**

Invested dollars may serve different intentions. Let’s say you invest $1,500,000 allocating $1,000,000 in equities and $500,000 in fixed income. The equity portion is probably earmarked for growth, intending to maximize upside returns. The fixed income allocation likely serves a different purpose. Identifying that purpose will help to identify the types of investments that are appropriate and assist in portfolio construction. There are many purposes fixed income may serve yet they are not necessarily mutually exclusive as investor objectives might span a range of these ideas.

**Hedge equity volatility.** Fixed income can counter-balance the movement of equities, providing stability in the portfolio (fixed income zigs when equities zag). An effective way to do this is with higher duration, high-quality fixed income. Although higher duration bonds hold more risk than lower duration bonds, the greater volatility serves to better counteract equity volatility.

**Funding a future purchase.** Sometimes there are desired or needed future acquisitions such a grandchild’s college tuition or a vacation home. This investor has an approximate future date and estimated dollar need. A long-term plan can provide a more gradual way to fund future needs. For example, zero-coupon bonds may minimize out-of-pocket upfront dollars yet provide appropriate returns to meet the goal. Other investors might require periodic cash flows and opt for coupon bonds. Regardless of the type of bond, high-quality investments can be structured to provide the appropriate principal returns.

**Total return.** Fixed income total return goals deviate from the typical buy-and-hold investor seeking capital preservation and/or income and align closely with equity goal characteristics. Investors are attempting to capitalize on price appreciation and not necessarily income, cash flow, and principal return. This more aggressive strategy may involve active trading and greater market risks.
Fixed Income Strategy Resources

Doug Drabik - Sr. Fixed Income Strategist
Drew O’Neil - Fixed Income Strategist
Rob Tayloe - Fixed Income Strategist
Rob Tribolet – Fixed Income Strategist

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 450 fixed income professionals including trading and public finance specialists in 38 nationwide locations. This publication does not constitute Fixed Income research, but rather it represents commentary from a trading perspective.

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- Fixed Income Weekly Primer (PDF)
- Municipal Bond Investor Weekly (PDF)
- Fixed Income Quarterly (PDF)
- Weekly Index Monitor (PDF)
- 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

“When it comes to your income, is success measured by an index, or when your individual needs and goals are met?”
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.

Tax-Exempt Municipals
Investors in high tax brackets seeking very high credit quality (typically A to AAA) investments that provide tax-efficient cash flow and income.

Taxable Municipals
Investors who are either not in a high tax bracket, or are investing for a qualified account, that want very high credit quality (typically A to AAA rated) investments.

Investment-Grade Corporate Bonds
Investors who are either investing in a qualified account or not in a high tax bracket, that want high credit quality investments but also want to maximize yield. Investment-grade quality is desired but AA or AAA rated securities are not a requirement. Most of this market carries BBB or A ratings.

Treasuries
Investors that want minimal to no credit risk and want maximum liquidity. Safety of principal and liquidity are the primary concerns, while return on investment is secondary.

Brokered CDs
Investors who want FDIC insured investments, oftentimes seeking more FDIC coverage than can be obtained from a single bank. FDIC insurance is the top priority, return on investment is secondary.

Preferred Securities
Investors seeking high cash flow that do not require a defined maturity date. A more aggressive investment than a corresponding corporate bond in that they are typically lower rated and often do not have a specified date for principal return.

Ladders
Many wealthy investors choose individual bonds to preserve their wealth. Laddered strategies can provide defined cash flows, steady income and a known maturity date. Ladders can be designed with flexibility allowing investors to obtain very individualized results. The table below summarizes a few illustrative portfolios to give investors an idea of current yields.

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.

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<th>Portfolio Statistics</th>
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<td><strong>Maturity</strong></td>
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<td><strong>Range</strong></td>
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<td>3</td>
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<tr>
<td>1 to 10</td>
<td>5.5</td>
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<tr>
<td>5 to 20</td>
<td>12.5</td>
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<td>10 to 20</td>
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</table>

Sources: Raymond James & Associates, Bloomberg L.P., HMD, as of 09/30/2020. TEY is based on the top federal tax bracket (21%) plus the 4% hurdle rate. Yield shown are illustrative only, calculated using the after-tax rate and based on the tax rate ranges combined with the yield quality parameters, and are not inclusive of sales charge. Certificates of Deposit offer FDIC insurance and a fixed rate of return whereas the principal value of fixed-income securities can fluctuate with changes in market conditions.

- 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.
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- Rebalance when applicable.


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Duration is the measure of a bond’s price sensitivity relative to interest rate fluctuations. The performance mentioned does not include fees or commissions which would reduce an investor’s returns. Dividends are not guaranteed and will fluctuate.

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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