

Fixed Income Quarterly

MARKET PERSPECTIVES – FIXED INCOME SERVICES GROUP

Bonds Back in Vogue?



For many investors, one might argue bonds never went “out of style”. Why? Well bonds serve a purpose for some investors that may go way beyond the advertised rate of return tied to the current yield curve. Individual bonds serve the purpose of protecting wealth by providing defined income streams, steady cash flow and a stated maturity.

Now the market whispers are becoming deafening. Everyone “knows” interest rates are headed higher (not an unfamiliar declaration over the past 20+ years). 4.00% yield on corporate ladders and 5.50% tax equivalent municipal yields are gaining attention. These income levels may now serve the dual purpose of maintaining wealth and replacing the dividend uncertainty of other asset classes.

Beyond their essential role within investment portfolios, bonds are appearing in many places for many reasons:

- The Trump administration continues its ambitious pro-America stance and its push to grow the economy. Meanwhile, the Fed has performed as publicized by slowly raising short-term interest rates. So far, 2018 has seen rates rise across the yield curve. All yield curve points between 2- and 10-years have seen yield increases of greater than 67 basis points year-to-date.
- Baby Boomers continue to retire at a steady pace and are seeking the bond benefits of predictable income, consistent cash flow and wealth preservation.

- New tax legislation may on the surface seem unfavorable to an asset class like tax-free municipal bonds; however, the difference between last and this year’s highest tax bracket is small. Furthermore, capping annual deductions on state and local taxes has more investors seeking ways to limit tax affects.
- Investors’ general fear of rising interest rates puts doubt on whether corporations can uphold current dividend payouts.
- U.S. interest rates remain appealing to foreign interests as global rates significantly lag.

First and foremost, bonds are often a “never out of style” means to capital preservation. Beyond that, they are becoming back in vogue for investors seeking higher stable income streams which improve as interest rates inch up. Read on to see how some investors are taking advantage. ▪

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Why Bonds? Known Outcome!

Let’s go straight to the conclusion: Bonds, when held to maturity and barring a default, provide a known outcome.

When you purchase a house, it is hopeful that neighborhood property values continue to rise; however, many factors can positively and/or negatively influence its value. Schools, parks, upkeep of adjoining properties, crime, etc. all influence its appraisal. Some are controlled and many not.

When you purchase a stock, it is hopeful the stock price goes up. Buy low, sell high. Often times this works out well. The stock’s return is a combination of any dividends it pays, distributions/reinvestment and the amount it appreciates. There is no promise though. Dividends are not guaranteed and can change or be eliminated while a stock’s price can go up or down. In addition, there is no specific time frame in which any of this may or may not occur.

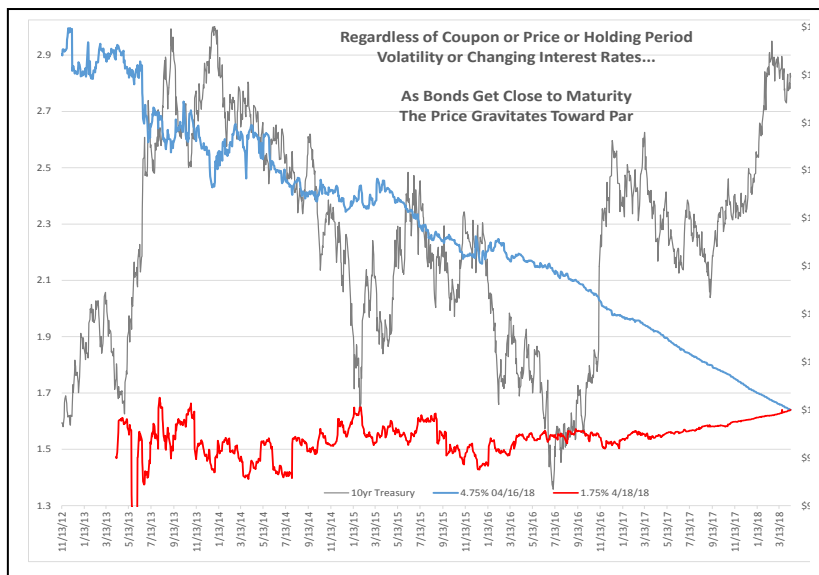
All of this is to point out that bonds are unique in many ways compared to many financial assets that are a regular part of our lives. There are two important qualifiers: first that an investor holds their bond to maturity and second that the bond does not default. Fortunately there are many means of support to help investors select bonds of high credit quality.

Total return measures a financial asset’s dividend or interest plus reinvestment of these distributions plus any price appreciation/depreciation. When a bond is held to maturity, the last component of total return (appreciation/depreciation) is nullified. As a bond approaches maturity, whether it was bought at a discount or a premium, it will approach its par value.

Assuming both of the bonds depicted in the graph had similar yields on the same purchase date, both (barring default) would have very similar total returns (altered only by reinvestment of coupon cash flow) if held to maturity (appreciation/depreciation disappears and yield stays intact). Although the higher premium bond (blue line) has more ground to cover as it gravitates towards par, it also provides more than 2.5 times the cash flow (4.75% coupon versus 1.75% coupon) bond for bond. More cash flow can be a benefit in a rising rate

environment as an investor has more dollars to reinvest at higher rates. Individual bonds can provide investors with tailor fit cash flow coupled with their known outcome of income.

The takeaway is simple. Regardless of their very different coupons, purchase prices, price volatility over their holding period and changing interest rates (black line), both bond prices (red and blue lines) shift toward par. Why does this occur? It occurs because at maturity, both bonds pay their face value off at par. Price



appreciation or depreciation diminish. Recall that *total return* includes: income + interest on cash flow + appreciation/depreciation. Since the possibility of appreciation/depreciation is gone, total return transforms to the equivalent of the bond’s yield. This explains why individual bonds have “known outcomes”. The only variable (price) becomes a constant (par) when a bond is held to maturity.

What comes next is usually the incited fear of holding bonds as interest rates

Higher rates don’t mean realized losses. Higher rates mean higher known future income!

go up (as rates go up, prices go down). Keep two things in mind: 1) when holding to maturity, your income is in essence locked in and your face value is returned in full at maturity and 2) cash flow reinvestments step into higher rates as does the entire face value at maturity. Higher rates don’t mean realized losses. Higher rates mean potentially higher known future income! ■

Don't Forget About the Cash Flow

The fear of potentially rising rates has some investors on the sidelines or allocating money to riskier asset classes not necessarily suitable for capital preservation. A reason for this fear is the effect rising interest rates have on bond pricing, perhaps a misunderstood concept. Consider a portfolio's return composition: Price Change + Coupon Return + Interest on Reinvested Cash Flow = Total Return.

- **Coupon return** will remain constant regardless of what interest rates do.
- **Interest on reinvested cash flow** will be higher in a higher rate environment.
- **Price change** is temporary, the price will eventually end up at par regardless of what interest rates do, barring default (see page 2).

Feeding the misunderstanding, dramatic headlines have referred to a 300 basis point (bp) rate increase as a potential "bloodbath" for bonds. The following graph depicts total return numbers¹ for a 5-10 year bond ladder in this 300bp scenario. By the end of the five year timeframe, the representative portfolio nets a **positive 16.00%** return, not quite what the headlines



suggest.

Some plans focus on total return results assuming investors are trading in-and-out of the markets instead of employing a buy-and-hold strategy. Some investors' actually apply fixed income allocations as part of their long-term plan with assets earmarked primarily for capital preservation. In addition, bonds can create a more balanced portfolio working with money allocated to growth assets.

	After 1 Year	After 2 Years	After 3 Years	After 4 Years	After 5 Years
Price Return	(161,153)	(138,951)	(115,526)	(91,005)	(66,112)
Interest on Reinvested Cash Flow	+	+	+	+	+
	1,258	5,126	11,937	21,966	35,530
Coupon Return	+	+	+	+	+
	38,822	77,644	116,466	155,288	194,110
Total Return	=	=	=	=	=
	(121,073)	(56,181)	12,877	86,250	163,528
Holding Period Return	-12%	-5%	1%	8%	16%
Portfolio Statistics					
Total Market Value:	1,024,428			Duration:	6.6
Face Value:	1,020,000			Yield to Maturity:	3.88%
Avg. Coupon:	3.81%			Yield to Worst:	3.87%
Avg. Maturity:	7.86 yrs			Avg. Market Price:	99.33

Often, negative commentary on a rising interest rates focuses on one component of the equation (price return) and completely ignores the other two factors (coupon return and interest on reinvested cash flow). The net affects of all three of these components should be considered to get the complete picture (see chart above).

So what is the takeaway here? The beauty of individual bonds is that they have the advantage of a maturity date and a defined stream of cash flow, which puts the advantage of time on the investor's side. Short-term price fluctuations are temporary while the positive impacts of cash flow will build over time.

Sources: Raymond James, TradeWeb Direct LLC. ¹Outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.

Tactical Cash Management

Over the last year, the entire yield curve has gradually shifted higher, although the shift has not been parallel. Short-term rates have increased by larger margins than the intermediate and long parts of the curve. By example, the 3- and 12-month Treasury Bills have increased nearly three times as much (in percentage) as the 10-year Treasury. Even on a net basis point change, the short end of the curve has risen more.

	5/17/2017	05/17/2018	Change	
3 Month	0.89	1.90	101 bp	114%
6 Month	0.99	2.08	109 bp	110%
1 Year	1.07	2.28	121 bp	113%
2 Year	1.25	2.59	134 bp	108%
5 Year	1.75	2.94	118 bp	67%
7 Year	2.02	3.06	104 bp	51%
10 Year	2.22	3.10	88 bp	39%
30 Year	2.92	3.23	31 bp	11%

Source: Bloomberg LP, Raymond James

Many individual and institutional investors have asked about cash management options. The situations vary. Money may be parked for a near term purchase (house, car, business, etc.), tax payments or a tactical pause in anticipation of lower equity prices or higher interest rates. Whatever the reason, the market opportunities have opened.

Investors able to operate by holding slightly longer bonds to maturity and forgo daily liquidity have options. For more credit risk-averse investors, Treasuries and brokered CDs provide significant yield pick-up over what can be earned on cash, in maturities as short as 3 months. A popular short-term strategy is to ladder either CDs or Treasuries with monthly maturities out to a year, thus providing scheduled liquidity. Additional yield can be achieved with corporate or municipal bonds and/or by extending maturities (3.00% is obtainable out three years). With current bank deposit rates ~0.40%, any of the following strategies provide significant yield pick-up.

Treasuries Laddered Monthly for One Year: This is a high-quality credit alternative offering the full faith and credit of the U.S. government. The Treasury market is an extremely liquid market. There is virtually unlimited availability. The slight give-up is that yields are likely to be lower versus alternatives.

Sample Portfolio Statistics - Treasuries Laddered Monthly for 1 Year

Avg Coupon:	1.34%	Annual Cash Flow:	\$ 3,600
Avg Maturity:	0.58 years	Principal Value:	359,270
Duration:	0.57	Avg Mkt Price:	99.797
Yield to Maturity:	1.53%	Avg Credit Rating:	Aaa/AAA

Source: TradeWeb Direct LLC, Raymond James; As of 5/16/18

CDs Laddered Monthly for One Year: These are FDIC insured assets (minimal credit risk). New issues are available at par. Under a fee based platform, issuer availability might be limited. The FDIC insured limit is \$250,000 or less per obligor per tax ID.

Sample Portfolio Statistics - CDs Laddered Monthly For 1 Year

Avg Coupon:	1.93%	Annual Cash Flow:	\$ 3,884
Avg Maturity:	0.56 years	Principal Value:	360,000
Duration:	0.52	Avg Mkt Price:	100
Yield to Maturity:	1.93%	Avg Credit Rating:	FDIC Insured

Source: TradeWeb Direct LLC, Raymond James; As of 5/16/18

Corporate Bonds Laddered Monthly for One Year: Utilizing corporate bonds means the potential for higher yields. The corporate market is highly liquid, especially with larger global issues. Supply may vary especially with extremely short maturities. Although they are not government guaranteed or insured, higher investment-grade credits are readily attainable.

Sample Statistics - Corporate Bonds Laddered Monthly for 1 Year

Avg Coupon:	2.14%	Annual Cash Flow:	\$ 5,826
Avg Maturity:	0.54 years	Principal Value:	359,874
Duration:	0.51	Avg Mkt Price:	99.965
Yield to Maturity:	2.04%	Avg Credit Rating:	BBB to AA-

Source: TradeWeb Direct LLC, Raymond James; As of 5/16/18

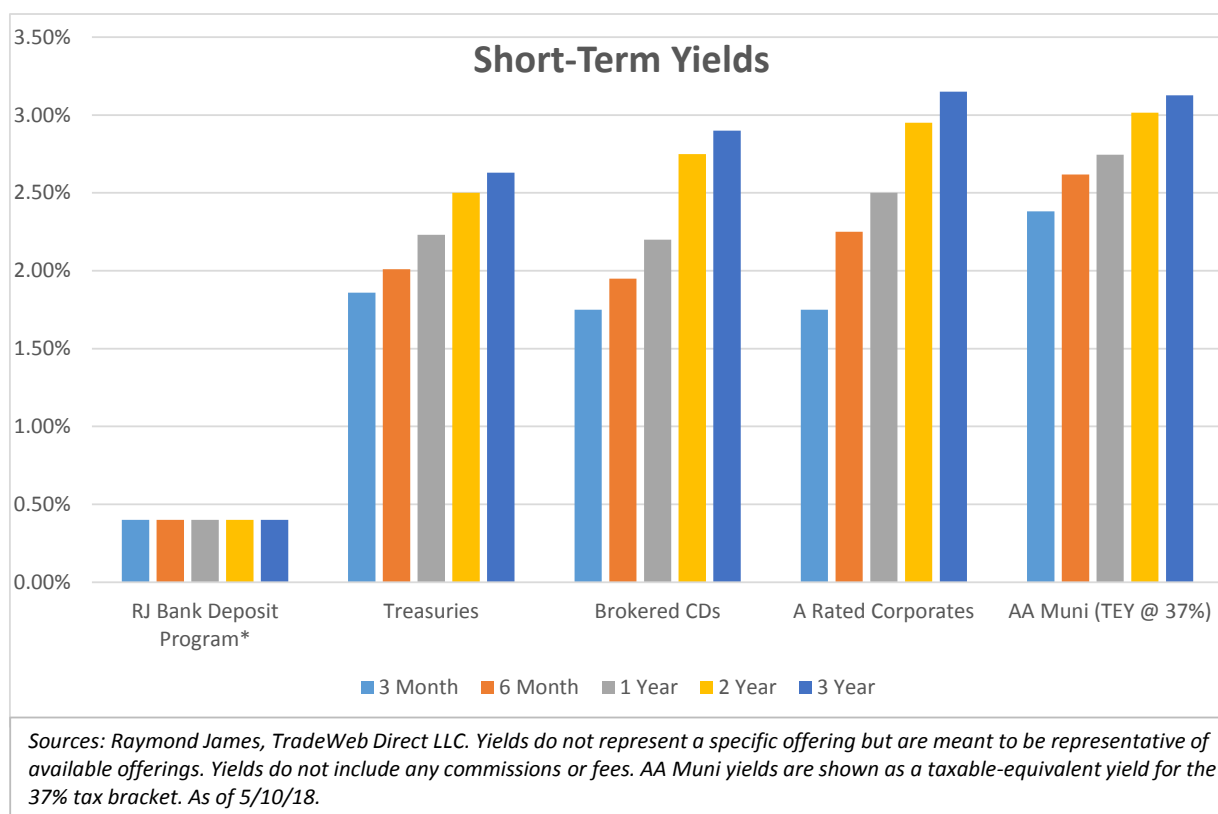
CDs & Corporate Bonds Laddered Monthly for Two Years: Mixing asset classes improves the potential for higher yield, utilizing the optimum assets for each part of the curve.

Sample Portfolio - CDs/Corporate Bonds Laddered Monthly for 2 Years

Avg Coupon:	2.19%	Annual Cash Flow:	\$ 6,340
Avg Maturity:	1.04 years	Principal Value:	358,745
Duration:	1.00	Avg Mkt Price:	99.651
Yield to Maturity:	2.41%	Avg Credit Rating:	BBB to FDIC

Source: TradeWeb Direct LLC, Raymond James; As of 5/16/18

There are an endless number of combinations which is one of the key advantages of utilizing individual bonds. These examples sacrifice daily liquidity for higher yields. Strategically placing maturities in regular intervals creates a variable-like portfolio in that each and every month (in these examples), the portfolio is rolling 5%-10% into current market rates. Over time this prevents the need to market time purchases and smooths purchases or reinvestments over various markets and changing interest rates. In the interim, the yields may compare favorably versus many variable rate products and likely to money market rates. ■



* Raymond James Bank Deposit Program for accounts with \$1,000,000 - \$4,999,999 in cash. For yields at other asset levels, please visit [Raymond James Deposit Rates](#).

Corporate Bonds... Hitting the 4.00% Bogey

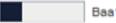

Appropriate asset allocation remains an imperative practice for long-term financial success. As interest rates have been in a general decline for over thirty-six years, it has been continually tempting to substitute strategy and reach for return with assets less fittingly designed to preserve capital. Typically, equities and bonds are not interchangeable assets for growth versus income and capital retention. The markets are helping to soften misplaced asset substitutions by providing higher yields on taxable bonds. According to Bloomberg, the S&P index average dividend as of May 16th is 1.91% while at the same time taxable yields are climbing higher.

-----Treasuries-----			
	1/1/2018	05/18/2018	Change
3 Month	1.38	1.89	0.51
6 Month	1.53	2.08	0.55
1 Year	1.73	2.29	0.56
2 Year	1.88	2.55	0.67
5 Year	2.21	2.89	0.69
7 Year	2.33	3.02	0.69
10 Year	2.41	3.07	0.67
30 Year	2.74	3.21	0.47
* as of 05/18/2018			

Source: Bloomberg LP, Raymond James

As 2018 moves along, interest rates have inched up across the curve and corporate spreads have widened. Laddered investment strategies have been a viable method to mitigate interest rate risk while investing for income and principal protection. For years some investors have been on the sidelines waiting for interest

rates to hit particular milestones. One such milestone has been reached in the investment grade corporate space where yields now enables investors to obtain a 4.00% yield in a three to nine year ladder. Illustrated below are selected statistics from TradeWeb's Laddered Report.

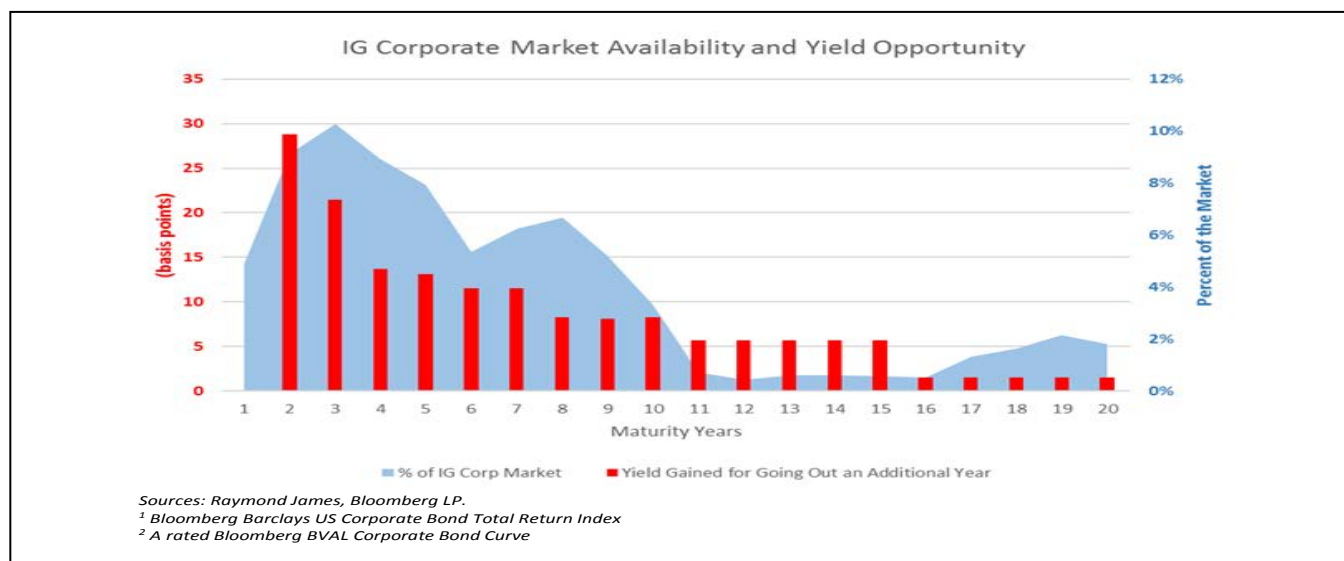
Sample Portfolio Statistics			
Avg. Coupon:	3.98%	Principal Value:	\$346,571.75
Avg. Maturity:	6.14 years	Sales Credit:	\$2,087.50
Duration:	5.27	Avg. Market Price:	99.021
Yield to Worst:	4.01%		
Yield to Maturity:	4.02%	Avg Moody's Rating:	Baa2  Baa1
Annual Cash Flow:	\$13,937	Avg S&P Rating:	BBB  BBB+

Sources: TradeWeb Direct LLC, Raymond James. As of 5/4/2018

The laddered strategy provides investors the opportunity to roll a portion of the portfolio yearly into future interest rate markets thus reducing interest rate risk. This serves as just one example of using what the market is currently giving.

Most corporate bond issuance and therefore supply is within ten years. About 25% of the available market is three years in and about 70% is within ten years (see the blue shaded area in the graph below). The red bars depict the yearly incremental pick up in yield for corporate bonds. For example, moving from a two to three year bond will generally increase the yield approximately 21 basis points.

From a strategic standpoint, this makes a compelling case to consider the corporate sector for maturity-needs inside 10 years. ■



Sources: Raymond James, Bloomberg LP.
¹ Bloomberg Barclays US Corporate Bond Total Return Index
² A rated Bloomberg BVAL Corporate Bond Curve

Municipal Bonds... A High Quality Choice

As exciting as corporate bonds are becoming for the short to intermediate portion of a fixed income portfolio, municipal bonds continue to be a mainstay for investors that benefit from their tax advantaged characteristic. Investors in the highest tax brackets can earn strong tax-equivalent yields for the intermediate to long portion of their fixed income portfolio.

The following statistics are derived from a sample laddered municipal bond portfolio comprised of maturities ranging from ten to twenty years and close to current coupons. Assuming an investor is in the current highest federal tax bracket (37%), the tax equivalent yield is 5.29% with an average maturity of 15.5 years and duration of 11.9.

Sample Portfolio Statistics - Municipal 10-20 Year Laddered

Avg Coupon:	3.25%	Annual Cash Flow:	\$ 10,242
Avg Maturity:	15.49 years	Principal Value:	346,191
Duration:	11.9	Sales Credit:	5,264
Yield to Worst:	3.32%	Avg Mkt Price:	98.912
Yield to Maturity:	3.33%		
Tax Equivalent Yld to Mat 37% bracket:	5.29%	Avg Credit Rating:	Aa/AA

Source: TradeWeb Direct LLC, Raymond James; As of 5/16/18

Keep in mind that the primary purpose for many fixed income investors is capital preservation. The cash flow and income are often secondary objectives. Municipal

bonds have endured low interest rates and tax law changes while continuing to provide steady cash flow and attractive yields. As important, the credit quality, partly evidenced by the low default rate, minimizes credit risk while the laddered format mitigates interest rate risk.

For investors capable of appropriate diversification, individual bonds enable them to enjoy the benefits of a stated maturity. By holding bonds to maturity, interest rate shifts which occur during the investor’s holding period and cause price volatility, fade away as a bond reaches its maturity. In other words, barring default and when the municipal bond is held to maturity, it:

1. Provides capital protection (with the option of high credit ratings),
2. Delivers cash flow as expected from the time of purchase,
3. Earns a known income and
4. Returns its face value on a specific maturity date.

Takeaway: Municipal bonds are an appealing intermediate to long duration tax-advantaged fit for investors in the higher federal tax brackets. What you invest in is what you get when held to maturity! ▪

**Comparing Year-to-Date Changes
Municipal Bonds & Treasuries**

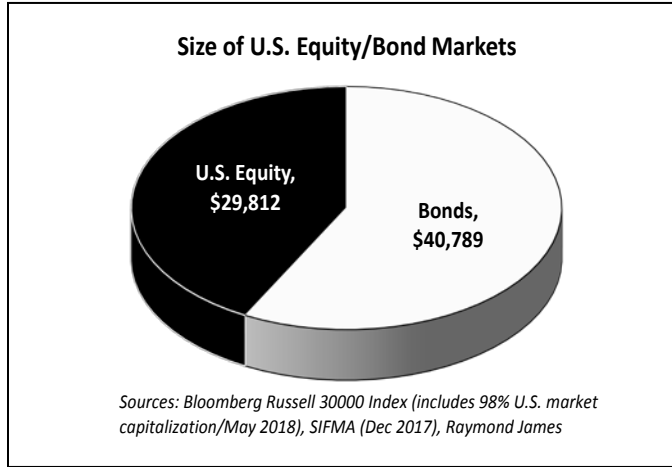
	---AA Municipal Curve---			Treasury Curve		
	1/2/2018	05/16/2018	Change	1/2/2018	05/16/2018	Change
5 Year	1.77	2.16	0.39	2.21	2.91	0.70
10 Year	2.16	2.69	0.53	2.41	3.06	0.65
11 Year	2.23	2.76	0.53			
12 Year	2.30	2.82	0.52			
13 Year	2.36	2.86	0.50			
14 Year	2.41	2.91	0.50			
15 Year	2.46	2.96	0.50			
16 Year	2.50	3.01	0.51			
17 Year	2.54	3.05	0.51			
18 Year	2.57	3.08	0.51			
19 Year	2.60	3.11	0.51			
20 Year	2.63	3.13	0.50	2.57	3.12	0.55

Source: MMD Curve, Raymond James

Bond Market Statistics

The equity bull market has narrowed the total equity (as measured by market capitalization) versus bond market size disparity. Still, the bond market remains approximately 37% larger.

Year-to-date, the rise in U.S. bond rates is outpacing other world market rates. The widening disparity may be viewed as a headwind to higher rates if foreign demand for U.S. bonds remains strong.

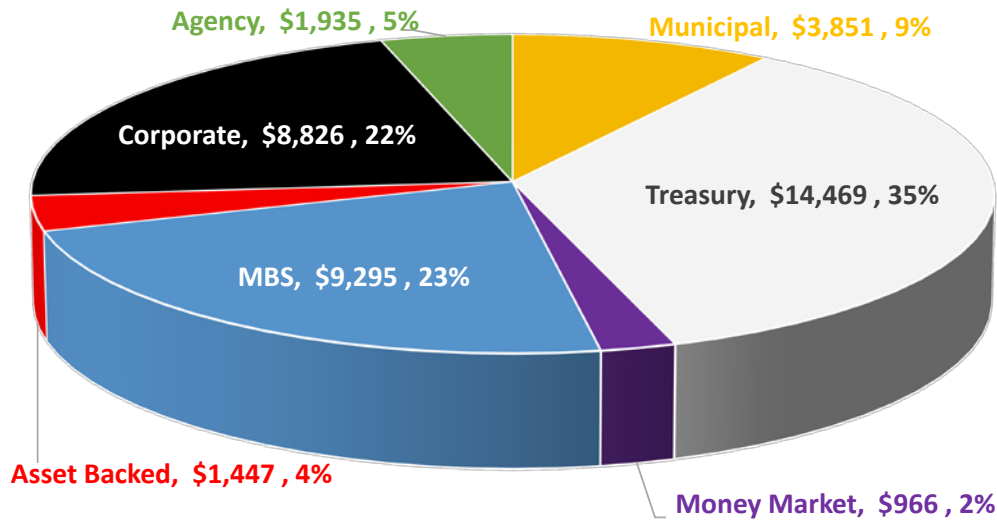


	-----2-Year-----		-----10-Year-----	
		YTD Δ		YTD Δ
U.S.	2.549	0.63	3.071	0.61
Canada	2.034	0.33	2.486	0.41
France	-0.474	-0.03	0.832	0.01
Germany	-0.584	0.03	0.579	0.11
Ireland	-0.427	0.06	1.019	0.31
Italy	0.092	0.33	2.229	0.13
Japan	-0.135	0.00	0.061	0.01
Netherlan	-0.601	0.02	0.722	0.15
Spain	-0.301	0.04	1.443	-0.17
Sweden	-0.495	0.28	0.727	-0.07
U.K.	0.822	0.32	1.500	0.21

* as of 05/18/2018
Source: Bloomberg LP, Raymond James

**Outstanding U.S. Bond Market Debt
As of 4th Quarter, 2017 (billions)**

Source: Sifma, Raymond James



Know What You Can Own

Many wealthy investors choose individual bonds to preserve their wealth. These laddered strategies can provide defined cash flows, solid income and the flexibility afforded by owning bonds with stated maturities. The table below summarizes a few illustrative portfolios to give investors an idea of current yields. ■

	Portfolio Statistics					Credit Quality			
	Maturity	Avg.	Yield to			AAA	AA	A	BBB
	Range	Maturity	Duration	Worst	TEY*				
Municipal Ladders	1 to 5	3	2.78	2.03%	3.44%	20%	60%	15%	5%
	1 to 10	5.5	4.84	2.32%	3.91%	20%	60%	15%	5%
	1 to 15	8	6.70	2.52%	4.26%	20%	60%	15%	5%
	5 to 10	7.5	6.33	2.54%	4.29%	20%	60%	15%	5%
	5 to 15	10	8.05	2.72%	4.59%	20%	60%	15%	5%
	5 to 20	12.5	9.61	2.85%	4.82%	20%	60%	15%	5%
	10 to 20	15	11.02	3.02%	5.10%	20%	60%	15%	5%
Corporate Ladders	1 to 5	3	2.75	3.43%			25%	75%	
	1 to 10	5.5	4.76	3.85%			25%	75%	
	1 to 15	8	6.56	4.11%			25%	75%	
	5 to 10	7.5	6.20	4.20%			25%	75%	
	5 to 15	10	7.83	4.40%			25%	75%	
CD Ladders	1 to 2	1.5	1.42	2.55%					
	1 to 3	2	1.88	2.70%					
	1 to 4	2.5	2.32	2.78%					
	1 to 5	3	2.76	2.86%					

Sources: Raymond James, Bloomberg LP, MMD; as of 5/18/18
 *TEY is based on the top federal tax bracket (37%) plus the Medicare surtax (3.8%)
 Yields shown are illustrative only, calculated using the arithmetic means based on the maturity range combined with the credit quality percentages, and are not inclusive of sales credit.



- ✓ 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.

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

Owning Bonds in Different Ways

Changing regulations can affect how clients may want to conduct transactions. Often times, fixed income assets are different than many other assets in that they are purchased with the intent of holding them to maturity and are primarily used for capital preservation. The following information will enable a comparison of the costs of purchasing and owning bonds in different ways.

Some investors may be surprised to learn that the impact of paying a markup or markdown including commission at the time of a transaction may in fact cost them less over time than purchasing or selling bonds in various packaged investments or accounts subject to

annual fees. The chart below illustrates how the exact same bond portfolio purchased under two different advice agreements may look over time.

Individual bond investments purchased on an up-front transactional or commission basis generally quote “net” yield. Bonds purchased under a fee-based agreement generally quote “gross” yield.

Net yield vs gross yield: *Net yield is the income being earned after all the expenses are considered. It is the actual yield/income that an investor will realize if the investment is held to term. Gross yield is the yield before associated expenses are considered.*



Source: Raymond James. Return Information has been calculated using the data contained in the following chart. This is a hypothetical illustration and not intended to represent performance of any investment strategy.

For buy and hold accounts, let’s let the math do the talking. Consider below an example of a 10 year bond ladder purchased according to different advice agreements. On the left, the portfolio has a **net yield** of 3.00%. The commission is 1.25% or \$1,250 per \$100,000. The bond ladder on the right quotes a **gross yield** of 3.15% AND no commission; however, the laddered investment is subject to an annual 75 basis point fee.

Commission Account					Fee Account				
Commissions: 1.25%					Commissions: 0.00%				
Annual Fee: 0.00%					Annual Fee: 0.75%				
Annual Yield: 3.00%					Annual Yield: 3.15%				
Initial Amount Invested: 1,000,000					Initial Amount Invested: 1,000,000				
Initial Commissions: 12,500					Initial Commissions: -				
Net Initial Investment: 987,500					Net Initial Investment: 1,000,000				
	Starting Value	Ending Value	Commissions (Reinvestment)	Ending Value Net Commissions		Starting Value	Ending Value	Fees	Ending Value Net Fees
Year 1	987,500	1,017,125	1,620	1,015,505	Year 1	1,000,000	1,031,500	7,736	1,023,764
Year 2	1,015,505	1,045,970	1,631	1,044,339	Year 2	1,023,764	1,056,012	7,920	1,048,092
Year 3	1,044,339	1,075,669	1,642	1,074,028	Year 3	1,048,092	1,081,107	8,108	1,072,999
Year 4	1,074,028	1,106,248	1,653	1,104,596	Year 4	1,072,999	1,106,798	8,301	1,098,497
Year 5	1,104,596	1,137,733	1,664	1,136,069	Year 5	1,098,497	1,133,100	8,498	1,124,602
Year 6	1,136,069	1,170,151	1,676	1,168,475	Year 6	1,124,602	1,160,027	8,700	1,151,326
Year 7	1,168,475	1,203,530	1,688	1,201,841	Year 7	1,151,326	1,187,593	8,907	1,178,686
Year 8	1,201,841	1,237,897	1,701	1,236,196	Year 8	1,178,686	1,215,815	9,119	1,206,696
Year 9	1,236,196	1,273,282	1,714	1,271,568	Year 9	1,206,696	1,244,707	9,335	1,235,372
Year 10	1,271,568	1,309,715	1,727	1,307,988	Year 10	1,235,372	1,274,286	9,557	1,264,729
Total Commissions Paid: 29,215					Total Fees Paid: 86,182				
Ending Value: 1,307,988					Ending Value: 1,264,729				
Net Gain: 307,988					Net Gain: 264,729				

This is a hypothetical illustration and not intended to represent performance of any investment strategy

Additional Fixed Income and 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. We are part of the larger 13 person Fixed Income Services Group (FISG) within Raymond James’ Fixed Income Capital Markets Group of more than 500 fixed income professionals including trading and public finance experts in forty-three nationwide locations. This publication does not constitute Fixed Income research, but rather it represents commentary from a trading perspective.

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Investment Types/Expertise Include:

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

Bond Market Update RAYMOND JAMES

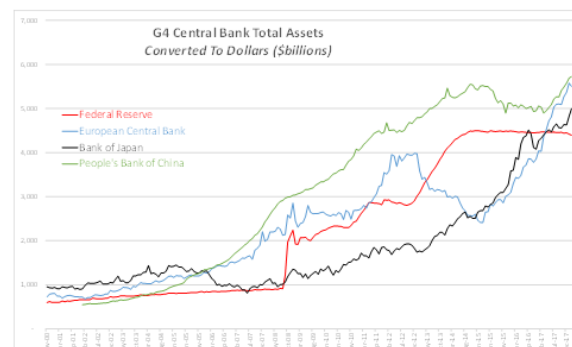
The \$20.6 Trillion Gorilla in the Room

By Douglas Drabik
April 23, 2018

First and foremost, for investors who buy and hold bonds to maturity and utilize them to protect wealth an enormous advantage is their *known outcome* versus the *speculative outcome* which exists for many other asset classes. Attempting to time the market with bond purchases leads to added risk. Although timing rates, predicting inflation and optimizing spreads flawlessly can boost yields, a mistimed market entry can cost yield/protection. Bonds are about long term planning whereas timing risks should be left to growth assets that depend on skilled timing.

That being said, it is still important to be sensible about market rates and trend shifts in order to potentially optimize the portfolio’s known outcome/income. Rising interest rates continue to be met with headwinds despite the Fed’s persistent push of short-term rates. We have talked many times about how the Fed influences short-term rates but does not necessarily have an equal or balanced influence on intermediate- and long-term rates.

From 2008-2010, three prominent central banks, the Fed, ECB and Bank of Japan (BoJ), all began quantitative easing programs. The programs have ballooned their balance sheets to levels never historically seen and the market affects and non-affects are currently being experienced. The Fed discontinued their QE program when the ECB, BoJ and People’s Bank of China pushed theirs. The four central banks have grown their combined balance sheets to over \$20.6 trillion (US). The Fed’s balance sheet is now the smallest of the four.



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