FIXED INCOME PERSPECTIVES

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Yield Curve

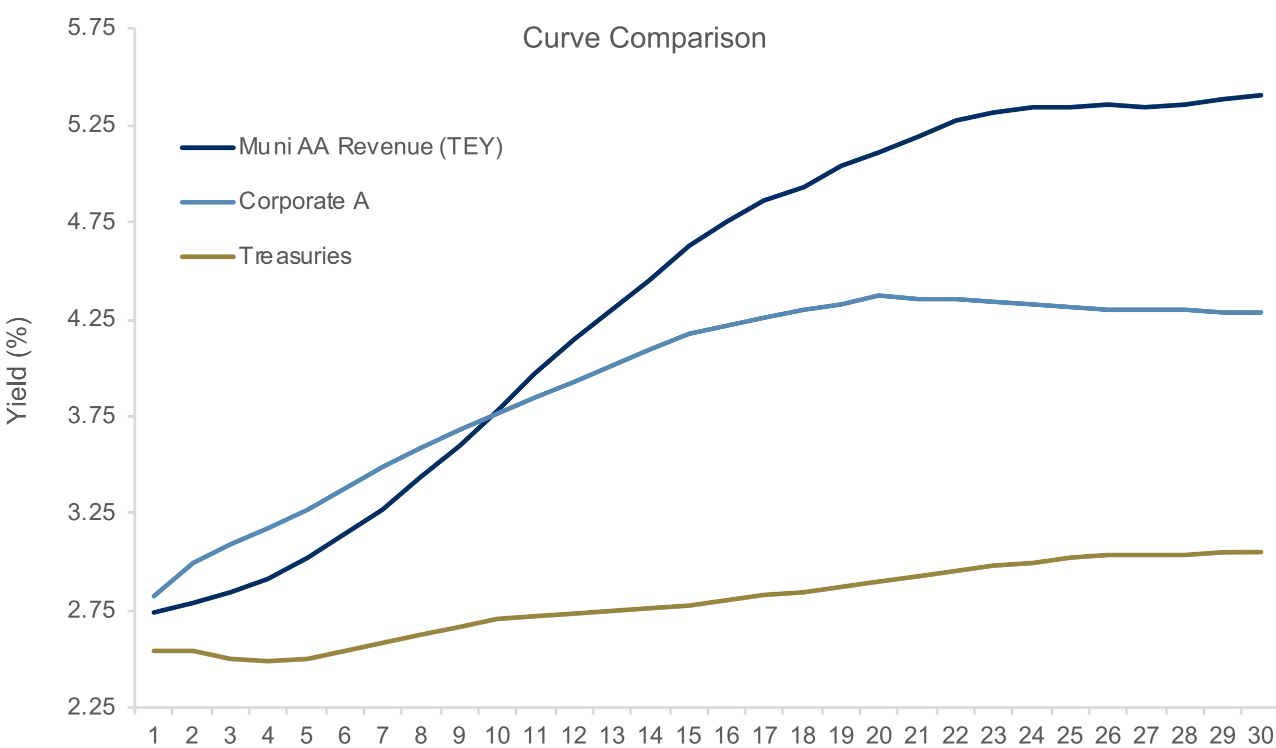
- Following heightened rate volatility in December, January proved to be rather muted. The 10-year Treasury yield fell a mere 6 basis points (bp) over the course of the month, from 2.69% at the end of December to 2.63% at the end of January. The 1-, 5-, and 7-year Treasuries each moved 8bp. The curve remained inverted from 1- to 7-years, but actually steepened between the 6-month bill and the 10-year Treasury.
- In what could be considered a remarkable about face, the Federal Open Market Committee (FOMC) meeting on January 30th was decidedly dovish. The shift in direction appears to be from a slow-moving tightening policy to what now appears to be a potentially accommodative policy. Bloomberg's World Interest Rate Probability reflects less than a 2.5% hike probability for 2019. This probability swung dramatically in both directions during the month. Just one day prior to the FOMC meeting, the probability of a rate *hike* this year was ~24%. Now, the probability of a rate cut has risen to ~23% in December and ~33% to start 2020.

Treasury Yield Curve			
Duration	**12/31/18**	**01/31/19**	**Change (bp)***
3-Month	2.45%	2.41%	-4
6-Month	2.56%	2.46%	-10
1-Year	2.63%	2.55%	-8
2-Year	2.48%	2.45%	-3
3-Year	2.46%	2.43%	-3
5-Year	2.51%	2.43%	-8
7-Year	2.59%	2.51%	-8
10-Year	2.69%	2.63%	-6
30-Year	3.02%	2.99%	-3

As of 02/01/2019 Sources: Raymond James, Bloomberg LP

**One basis point (bp) is equal to 1/100th of a percent.*

- Furthermore, the FOMC suggested that its balance sheet reduction might end. The Fed's balance sheet has fallen from ~$4.4 trillion to ~$4 trillion in assets over the last year. All of this is to suggest that interest rates may be locked into a very tight range with a bias towards lower rates, at least in the near term.
- There is little to suggest that rates will rise significantly. Neither data nor future events are necessarily supportive of upward movement. In addition to the transparent Fed tone change, there are several impactful "market movers" or material events that could amplify the flight to quality and/or hinder economic growth. This, in turn, could move intermediate- to long-term Treasury rates down. These events include the Mueller investigation and/or escalation of impeachment proceedings, complications surrounding Brexit, a continuation of the trade war with China, and/or an Italian bank implosion.
- Corporate bond spreads tightened in January. High yield corporates tightened more compared to investment grade. Relative to the risk, investors in the high yield space receive less yield than they had one month ago.
- Municipal demand remains strong on the short part of the municipal curve. During January, yields inside of 15 years in maturity were marginally down, while yields greater than 15 years were slightly up. This has caused the municipal yield curve to steepen (similar to the Treasury curve movement).



As of 02/01/2019 Sources: Raymond James, Bloomberg LP

- The sweet spot of the municipal curve (where 80%-90% of the entire curve's yield can be captured) is between 14-18 years out as of month's end. In the corporate sector, it is between 6-11 years.

Municipals (AAA)				Corporate A			
Year	Yield	Add'l Yld	Capture	Year	Yield	Add'l Yld	Capture
1	1.64		54%	1	2.82		66%
2	1.66	0.02	54%	2	3.00	0.17	70%
3	1.68	0.02	55%	3	3.09	0.09	72%
4	1.72	0.04	56%	4	3.17	0.08	74%
5	1.77	0.05	58%	5	3.26	0.09	76%
6	1.83	0.06	60%	6	3.38	0.11	79%
7	1.90	0.07	62%	7	3.49	0.11	82%
8	1.99	0.09	65%	8	3.59	0.10	84%
9	2.08	0.09	68%	9	3.68	0.09	86%
10	2.18	0.09	71%	10	3.77	0.09	88%
11	2.27	0.10	74%	11	3.85	0.08	90%
12	2.36	0.08	77%	12	3.93	0.08	92%
13	2.42	0.06	79%	13	4.01	0.08	94%
14	2.49	0.07	81%	14	4.09	0.08	96%
15	2.57	0.08	84%	15	4.18	0.08	98%
16	2.64	0.07	87%	16	4.21	0.04	98%
17	2.71	0.06	89%	17	4.25	0.04	99%
18	2.76	0.05	90%	18	4.29	0.04	100%
19	2.82	0.06	92%	19	4.33	0.04	101%
20	2.86	0.05	94%	20	4.37	0.04	102%
21	2.91	0.04	95%	21	4.36	-0.01	102%
22	2.94	0.03	96%	22	4.35	-0.01	102%
23	2.96	0.02	97%	23	4.34	-0.01	101%
24	2.98	0.02	98%	24	4.32	-0.01	101%
25	3.00	0.01	98%	25	4.31	-0.01	101%
26	3.01	0.01	98%	26	4.31	-0.01	101%
27	3.02	0.01	99%	27	4.30	-0.01	100%
28	3.03	0.01	99%	28	4.29	-0.01	100%
29	3.04	0.01	100%	29	4.29	-0.01	100%
30	3.06	0.01	100%	30	4.28	-0.01	100%

As of: 1/31/2019 Source: Bloomberg LP, Raymond James

- Laddered portfolios can mitigate interest rate risk and with a specific duration strategy, can optimize yield while hedging against growth asset allocations in the portfolio.

	Portfolio Statistics					Credit Quality			
	Maturity Range	Avg. Maturity	Duration	Yield to Worst	TEY*	AAA	AA	A	BBB
Municipal Ladders	1 to 5	3	2.79	1.79%	3.02%	20%	60%	15%	5%
	1 to 10	5.5	4.86	1.98%	3.34%	20%	60%	15%	5%
	1 to 15	8	6.73	2.21%	3.73%	20%	60%	15%	5%
	5 to 10	7.5	6.38	2.12%	3.58%	20%	60%	15%	5%
	5 to 15	10	8.10	2.37%	4.00%	20%	60%	15%	5%
	5 to 20	12.5	9.68	2.56%	4.33%	20%	60%	15%	5%
	10 to 20	15	11.08	2.79%	4.71%	20%	60%	15%	5%
Corporate Ladders	1 to 5	3	2.75	3.41%				25%	75%
	1 to 10	5.5	4.78	3.73%				25%	75%
	1 to 15	8	6.57	3.99%				25%	75%
	5 to 10	7.5	6.23	3.99%				25%	75%
	5 to 15	10	7.85	4.22%				25%	75%
CD Ladders	1 to 2	1.5	1.42	2.58%					
	1 to 3	2	1.88	2.68%					
	1 to 4	2.5	2.33	3.76%					
	1 to 5	3	2.76	2.84%					

Sources: Raymond James, Bloomberg LP, MMD; as of 02/01/19
**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.

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While interest on municipal bonds is generally exempt from federal income tax, it may be subject to federal alternative minimum, or state or local taxes. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Municipal bond investments may involve market risk if sold prior to maturity, credit risk and interest rate risk.

A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency. 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 rise.

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Investments are subject to market risk, including possible loss of principal. Prior to transacting in any security, please discuss the suitability, potential returns, and associated risks of the transactions(s) with your financial advisor.

Duration is the measure of a bonds price sensitivity relative to interest rate fluctuations.

Yield to Maturity (YTM): the total return anticipated on a bond if the bond is held until the end of its lifetime.

Past performance is not indicative of future results.

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