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FIXED INCOME PERSPECTIVES

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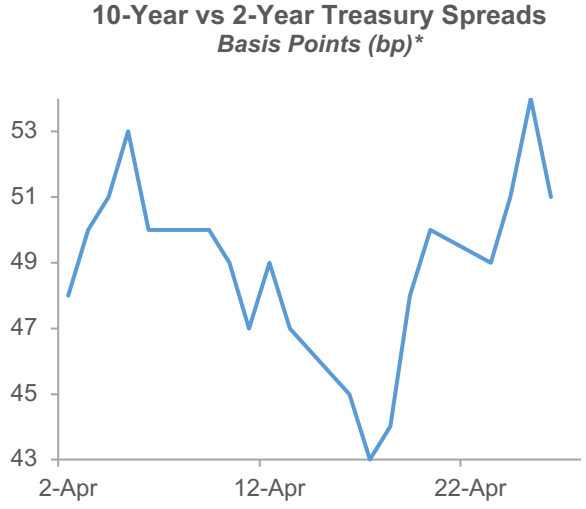
Yield Curve

- Interest rates were higher across the yield curve in the month of April. Much attention has been focused on the 10-year Treasury and whether it would break resistance at 3.00%. It managed to break the barrier on April 24th and close at 3.00% and 3.02% on April 24th and 25th, respectively. As of the time of this writing, the 10-year Treasury is oscillating slightly above to slightly below the mark. The 2-10 year Treasury spread dipped to 43 basis points on April 17th, the tightest it has been since September 17, 2007. It immediately began to widen back out, ending at 46 bp.

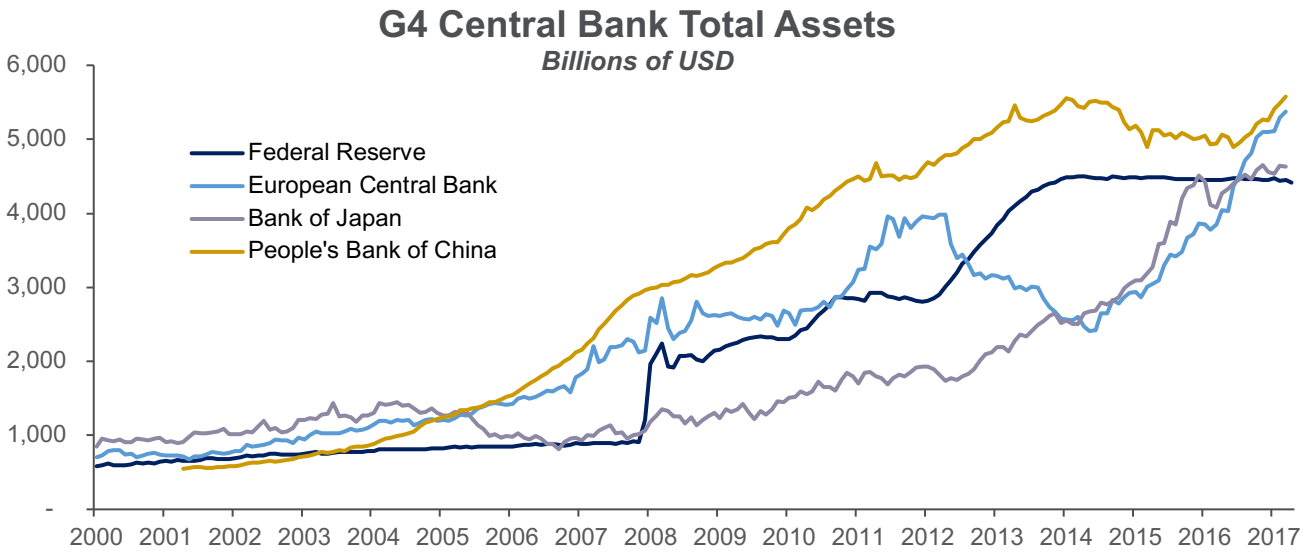
Treasury Yield Curve			
Duration	**03/30/18**	**04/26/18**	**Change***
3mo	1.70	1.83	13 bp
6mo	1.91	2.01	10 bp
1yr	2.08	2.24	16 bp
2yr	2.27	2.48	21 bp
3yr	2.38	2.62	24 bp
5yr	2.56	2.81	24 bp
7yr	2.68	2.93	25 bp
10yr	2.74	2.99	25 bp
30yr	2.97	3.17	21 bp



As of 04/26/2018 Sources: Raymond James, Bloomberg LP **One basis point (bp) is equal to 1/100th of a percent.*

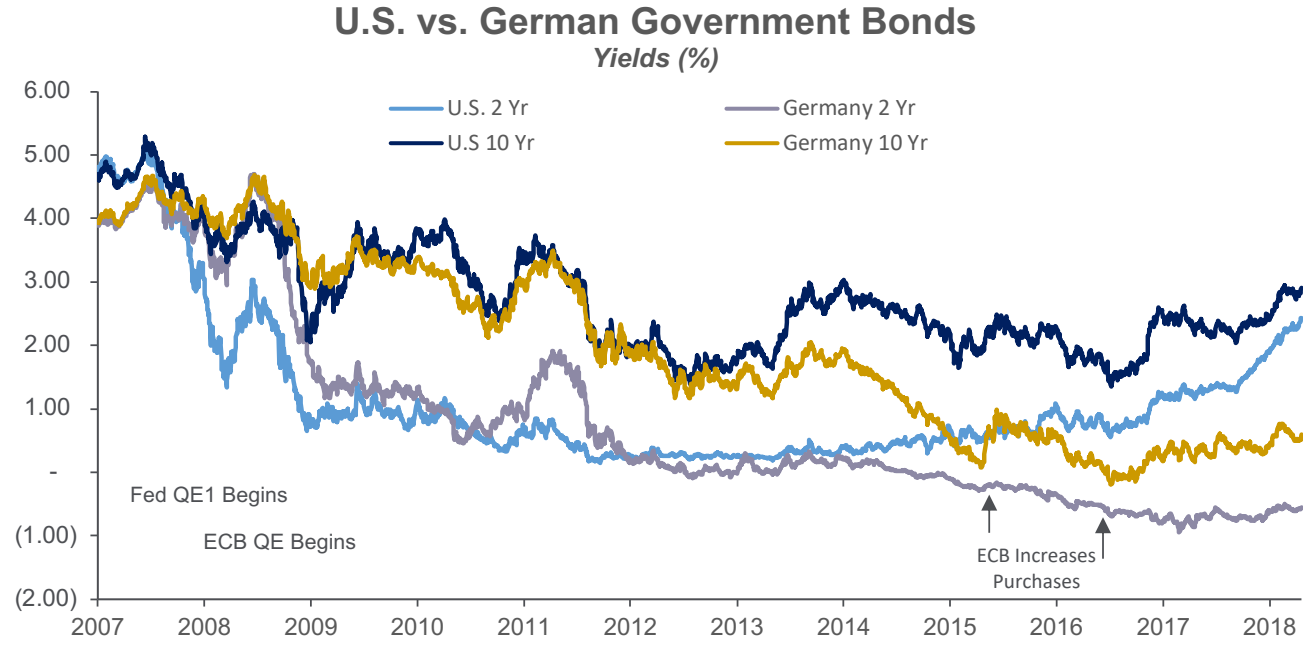
The 20 Trillion Dollar Gorilla in the Room

- From 2008-2010, three prominent central banks, the Fed, European Central Bank (ECB), and Bank of Japan (BoJ), all began quantitative easing programs. While the Fed discontinued their QE program, the ECB, BoJ and People's Bank of China (PBOC) pushed theirs. The four central banks have grown their combined balance sheets to an historically unprecedented $20.6 trillion (US), and markets continue to feel its effects. The Fed's balance sheet is now the smallest of the four.



As of 04/26/2018 Sources: Raymond James, Bloomberg LP

- The Federal Open Market Committee (FOMC) began tapering quantitative easing (QE) in December of 2013. Shortly after, the European Central Bank twice increased its monthly bond purchases (QE) despite repeated assertions that they would begin their own tapering. Interestingly, the spread between sovereign rates began to widen considerably about the same time period that the Fed tapered and the ECB accelerated its open market purchases. The following graph depicts the largest ECB economy, Germany (purple and gold lines), against the United States (blue lines) 2- and 10-year rates.



As of 04/26/2018 Sources: Raymond James, Bloomberg LP

- For years prior to and including the quantitative easing periods, German and U.S. rates generally tracked each other. When monetary policy noticeably split in different directions, rate disparity evolved. As long as world monetary policy diverges, it is possible that foreign interest will continue to hinder the rise of U.S. rates, which remain higher relative to rates around the world. Below is a comparison of other world rates and their year-to-date changes:

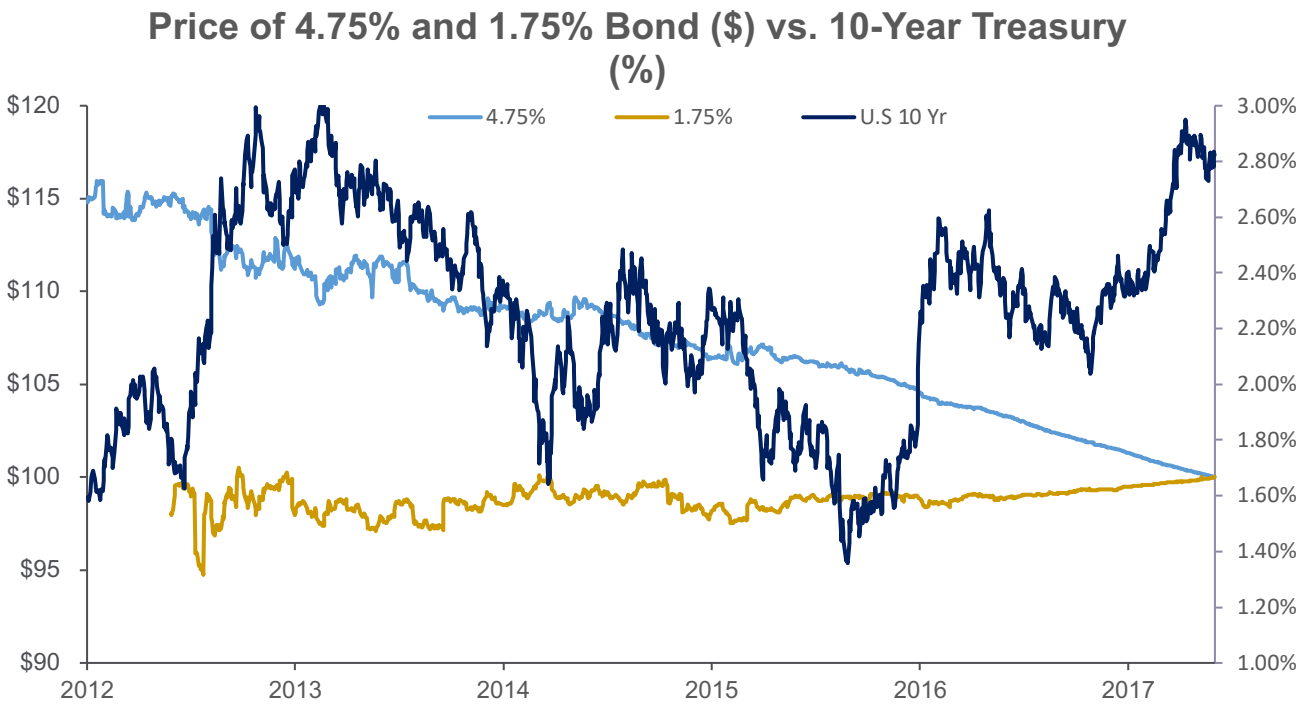
World Bond Market Rates

Country	2-Year Treasury		10-Year Treasury	
	Rate (%)	YTD Change (bp)	Rate (%)	YTD Change (bp)
United States	2.460	58	2.977	58
Canada	1.913	23	2.336	30
France	(0.464)	00	0.846	07
Germany	(0.550)	09	0.631	21
Ireland	(0.398)	10	1.029	36
Italy	(0.292)	(06)	1.767	(24)
Japan	(0.133)	00	0.058	00
Netherlands	(0.600)	05	0.770	25
Spain	(0.320)	08	1.299	(27)
Sweden	(0.488)	30	0.792	02
United Kingdom	0.876	45	1.539	35

As of 04/24/2018 Sources: Bloomberg LP, Raymond James
One basis point (bp) is equal to 1/100th of a percent.

Why Yield Can Be the Driving Force

- Total return for bonds includes appreciation/depreciation plus income plus reinvestment of cash flow. For buy-and-hold bond investors, total return eliminates price, given that a bond gravitates to par as it approaches its maturity; therefore, total return is determined by the bond's yield. Compare these bonds and their prices over the last five years (see chart on following page). The gold line is a 1.75% coupon bond that matured on April 18th. The light blue line is a 4.75% coupon bond that matured on April 16th. Over the depicted time period, both bonds had similar starting yields and maturities. The dark blue line shows a constant 10-year Treasury rate and its volatility during the five year holding period.

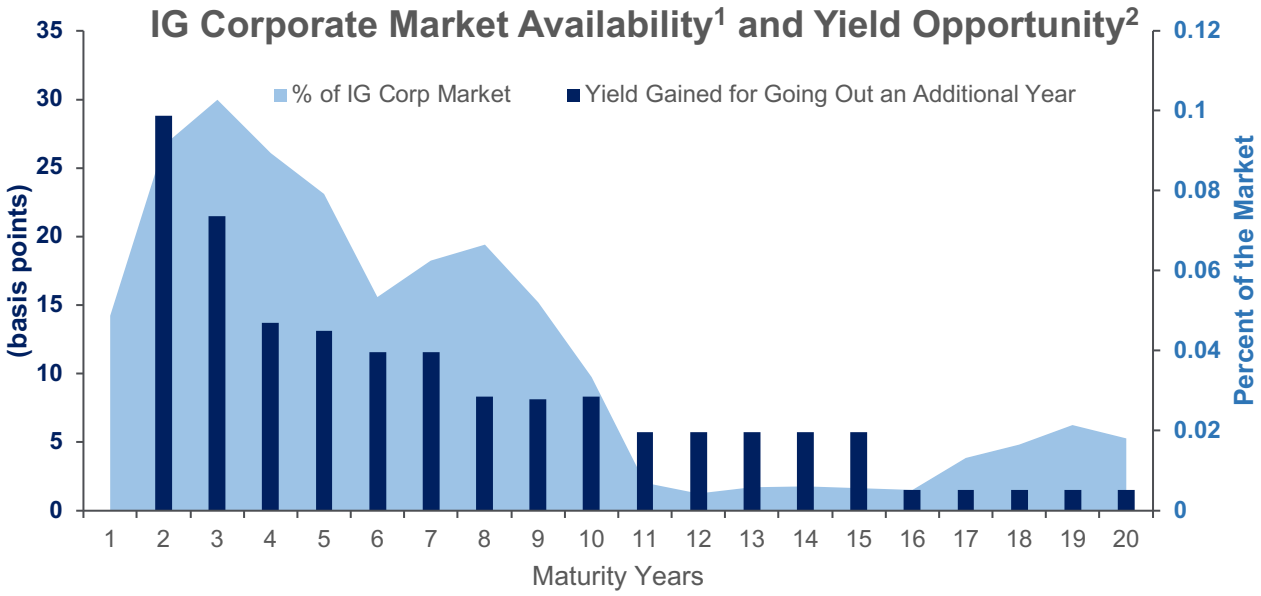


As of 04/26/2018 Sources: Raymond James, Bloomberg LP

- As shown by the chart above, regardless of coupon, price, holding period, volatility, or changing interest rates, the price of a bond gravitates towards par as it approaches maturity.
- Assuming both of these bonds had similar yields on the same purchase date, both would have very similar total returns (altered by reinvestment of coupon cash flow) if held to maturity (barring default). Over time, appreciation/depreciation disappears and yield stays intact. Although the higher premium bond 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 known income and tailor-fitted cash flow.

Corporate Bond Opportunity

- Most corporate bond issuance (and, therefore, most supply) is within ten years. About 25% of the available market is within three years and about 70% is within ten years (see the blue shaded area in the graph on the following page). 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 increase the yield approximately 21 basis points.



As of 04/24/2018 Sources: Raymond James, Bloomberg LP
[1] Bloomberg Barclays US Corporate Bond Total Return Index
[2] A rated Bloomberg BVAL Corporate Bond Curve

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

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.

CDs offer FDIC insurance and a fixed rate of return whereas both principal and yield of investment securities will fluctuate with changes in market conditions. CDs are insured by the Federal Deposit Insurance Corporation (FDIC), an independent agency of the United States government, for up to $250,000 per depositor. The coverage limit refers to the total of all deposits that an account holder(s) has at each FDIC insured bank.

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.

U.S. Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. Treasury bills are certificates reflecting short-term obligations of the U.S. government.

Diversification does not ensure a profit or protect against a loss. 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.