December 2, 2019

Fixed Income Weekly Primer

TREASURIES

It was an uneventful week for Treasuries as the 2 year Treasury opened Monday yielding 1.61% and closed Friday at the same level. The 10 year Treasury opened Monday at 1.77% and closed Friday at 1.78%. It will be a relatively quiet beginning to the week for economic releases, but there will be a plethora of data released Friday. Monday, ISM (Institute for Supply Management) figures will be released. Wednesday, ADP Employment Change will be released. Friday, employment data will be released including the Change in Nonfarm Payrolls, the Unemployment Rate and Average Hourly Earnings.

BROKERED CDs

CD rates were mostly unchanged compared to the prior week. The 3, 6 & 9 month rates stayed the same with a 1.65% yield for all three. The 3 & 4 year rates were unchanged, yielding a 1.85% and 1.90%. The number of banks in the market went down by 39 banks, from 107 to 68 banks. The total number of CDs available went down from 253 to 159. For a 3-month to 1-year ladder, there were 51 banks available for a total of $12.75mm and with a YTM of 1.612%. The amount invested is lower compared to last week’s $20.25mm but the YTM is higher from last week’s 1.586%. For a 3-month to 5-year ladder, there were 67 banks available for a total of $16.75mm and with a YTM of 1.691%. The amount invested is lower compared to last week’s $25mm but the YTM is higher from last week’s 1.657%.

MUNICIPALS

Municipal bonds rallied last week taking yields lower by 2-3 basis points. The slope of the entire AAA curve is currently 99 basis points (1 to 30 year spread). The taxable-equivalent yield (highest tax bracket) equates to 167 basis points. The new issue and secondary market were very quiet last week for the holiday as investors were anticipating the biggest volume week of the year with $17.4 billion expected to come to market this week. The New Jersey Transportation Trust Fund Authority (Baa2/A+/NR) is coming to market with $2.3 billion of transportation system bonds. Metropolitan Washington Airports Authority (Baa2/A-/NR/NR) is coming to market with two deals totaling $1.7 billion. The Michigan Finance Authority (Aa3/AA-/AAA-NR) is selling $1.119 billion of taxable hospital revenue refunding bonds for the Trinity Health Credit Group. See the New Issue Calendar for additional transactions coming to market this week. See the New Issue Calendar for additional transactions coming to market this week.

CORPORATES

Nearly $100 billion investment grade corporate bond offerings came in November. December is slated to be slower with guestimates ~$30.3 billion through year end with forecasts of $15-$20 billion this week. Dealers are looking to get ahead of the FOMC December 11th meeting. BBB rated and A rated corporate spreads narrowed slightly by 3bp for the week while the high yield index tightened in spread by 10bp. The “sweet” spot on the corporate curve is in the 4-8 year maturity range, also providing good duration balance for many growth weighted portfolios.

Source: Bloomberg L.P. Raymond James as of 12/02/19

*Lower bound of range. All entries are percentage (%) unless otherwise noted.
Investors should discuss the risks inherent in bonds with their Raymond James Financial Advisor. Risks include, but are not limited to, changes in interest rates, liquidity, credit quality, volatility, and duration. Past performance is no assurance of future results.

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.

The Bloomberg U.S. Corporate Bond Indexes are comprised of the "active" (most frequently traded) fixed coupon bonds represented by FINRA TRACE, FINRA's transaction reporting facility that disseminates all over-the-counter secondary market transactions in these public bonds.

The Citigroup Investment Grade Bond Index measures the value of the broad U.S. investment-grade bond market, including over 6,000 U.S. Treasury, government agency, corporate and mortgage-backed securities. All bonds in this index must be investment grade (rated at least BBB-/ Baa3), have a maturity of at least one year, and a total value outstanding of at least $200 million.

Mortgage Backed securities (MBS) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market, interest rate, prepayment, and reinvestment risks. Unless issued by GNMA, MBS's are not backed or guaranteed by any government agency.

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