Fixed Income Weekly Primer

Fixed Income Solutions

The FOMC meets this week and is widely expected to cut the Fed Funds rate for the first time since beginning an aggressive rate hiking cycle in early 2022. Based on Bloomberg survey data, the consensus is for a 25 basis point cut. Some market participants have been making the case for a 50 basis point cut in recent weeks, and by some measures, markets appear to be leaning toward 50 basis points. Bloomberg calculations based on where Fed Funds futures are trading have the odds of a 50 basis point cut at ~70% as of Monday morning. A week prior those odds were at ~31%. The last significant data point before the FOMC decision is Retail Sales numbers, released Tuesday morning, which could potentially sway the committee one way or another. Along with the decision on Fed Funds, the FOMC will release an updated Summary of Economic Projections (SEP) on Wednesday which will provide insight into their longer-term forecasts on important factors such as unemployment and inflation. The SEP also contains the DOT plot, which shows the prediction of the Fed Funds rate over the next few years for each committee member (anonymously). While this week's decision on Fed Funds will likely have a big influence on market activity in the short-term, the data contained in the SEP will provide a longer-term guide for the markets.

Last week, yields edged lower across most of the fixed income universe. Treasuries rallied, taking yields lower by 5 to 10 basis points across the curve. The largest moves were seen on the short end of the curve as the 1 and 2-year yields fell by 10 and 9 basis points, respectively. Investment-grade corporate yields fell in tandem with benchmark yields as spreads were mostly unchanged for the week. Municipal yields fell but only marginally, as the benchmark AAA curve fell by 1 to 2 basis points. Muni-Treasury ratios increased to 72% at 10 years and 88% at 30 years, continuing the shift in relative value towards municipal bonds, especially for higher tax bracket investors.

CD rates were mostly higher for the week. The number of available issuers decreased (from 87 to 80). The total number of CDs available increased (from 169 to 177). 57 issuers listed offerings between 3-months and 1-year totaling $14.25mm (vs. last week's $12.75mm) and averaging a 4.664% yield-to-maturity (vs. last week's 4.539%). 77 issuers listed offerings between 3-months and 5-years totaling $19.25mm (vs. last week's $20.25mm) and averaging a 4.501% yield-to-maturity (vs. last week's 4.454%).

	Friday	WEEK AGO	CHANGE
Equities (Price Appreciation)			
S&P 500	5626.02	5408.42 ▲	217.60
Treasuries (YTW)			
1 yr	4.000	4.100 ▼	-0.100
5 yr	3.430	3.500 ▼	-0.070
10 yr	3.660	3.720 ▼	-0.060
30 yr	3.980	4.030 ▼	-0.050
Brokered CDs (YTW)			
3 mo	4.950	4.950 ▬	0.000
6 mo	4.700	4.650 ▲	0.050
1 yr	4.400	4.350 ▲	0.050
3 yr	3.900	3.900 ▬	0.000
5 yr	3.800	3.800 ▬	0.000

	Friday	WEEK AGO	CHANGE
Municipal (AAA) (YTW)			
1 yr	2.435	2.452 ▼	-0.017
5 yr	2.362	2.382 ▼	-0.020
10 yr	2.607	2.608 ▼	-0.002
30 yr	3.498	3.503 ▼	-0.005
Municipal (AAA) TEY @ 37%			
1 yr	3.866	3.892 ▼	-0.026
5 yr	3.749	3.780 ▼	-0.032
10 yr	4.137	4.140 ▼	-0.003
30 yr	5.552	5.560 ▼	-0.008
MBS 30-yr (Current Coupon) (YTW)			
FNMA	4.788	4.923 ▼	-0.135
GNMA	4.696	4.865 ▼	-0.169

	Friday	WEEK AGO	CHANGE
Corporate Index (A) (YTW)			
1 yr	4.494	4.589 ▼	-0.095
5 yr	4.068	4.148 ▼	-0.080
10 yr	4.551	4.629 ▼	-0.078
30 yr	5.022	5.090 ▼	-0.068
Corporate Index (BBB) (YTW)			
1 yr	4.884	4.974 ▼	-0.090
5 yr	4.469	4.528 ▼	-0.059
10 yr	4.945	5.011 ▼	-0.066
30 yr	5.394	5.460 ▼	-0.066
Other Rates			
3m LIBOR	5.203	5.200 ▲	0.003
Fed Funds	5.310	5.310 ▬	0.000

Source: Bloomberg LP, Raymond James as of 09/16/24 *All entries are percentage (%) unless otherwise noted.*

DAY	EVENT	PERIOD	SURVEY	PRIOR
Tues	Retail Sales Advance MoM	Aug	-0.2%	1.0%
Tues	Capacity Utilization	Aug	77.9%	77.8%
Wed	Housing Starts	Aug	1316k	1238k
Wed	FOMC Rate Decision (Upper)	Sep 18	5.25%	5.50%
Thurs	Initial Jobless Claims	Sep 14	230k	230k

Available on RaymondJames.com

- Bond Market Commentary
- Weekly Interest Rate Monitor
- Municipal Bond Investor Weekly
- Fixed Income Quarterly

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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 DJIA (Dow Jones Industrial Average) is a price-weighted index of 30 significant stocks. The S&P 500 is an index of 500 widely held securities meant to reflect the risk/return characteristics of the large cap universe. The NASDAQ Composite Index is an index of all stocks traded on the NASDAQ over-the-counter market. The Russell 2000 index is an index of small cap securities which generally involve greater risks. The Markit CDX indices are composed of 125 investment grade entities, and attempt to track credit default swap spreads on these underlying securities. These unmanaged indexes cannot be invested in directly.

GDP(Gross Domestic Product) is the annual total market value of all final goods and services produced domestically by the U.S.

The S&P U.S. Preferred Index measures the performance of a select group of preferred stocks listed on the New York Stock Exchange, NYSE Arca, Inc., NYSE Amex,NASDAQ Global Select Market, NASDAQ Select Market or NASDAQ Capital Market.

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.

The Mortgage Bankers Association Market Composite Index is a measure of mortgage loan application volume.

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- or Baa3), have a maturity of at least one year, and a total value outstanding of at least $200 million.

The Markit CDX North America Investment Grade Index is composed of 125 equally weighted credit default swaps on investment grade entities, distributed among 6 sub-indices: High Volatility, Consumer, Energy, Financial, Industrial, and Technology, Media & Tele-communications. Markit CDX indices roll every 6 months in March & September.

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.

U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

Taxable Equivalent Yield (TEY) is a method of comparing yields of tax-exempt bonds to those of taxable bonds on a pre-tax basis. TEY is the yield required on a taxable bond to equal the yield of a tax-free bond. It is calculated by dividing the tax-free yield by the reciprocal of the federal tax rate. The highest U.S. tax bracket of 37% is used in the illustration in this material. While interest on municipal bonds is generally exempt from federal income tax, it may be subject to the federal alternative minimum tax, or state or local taxes. In addition, certain municipal bonds, such as Build America Bonds (BAB), are issued without a federal tax exemption, which subjects the related interest income to federal income tax.

The Bloomberg U.S. municipal curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call.

Yield-to-worst (YTW) is the lowest bond yield generated, given the potential stated calls prior to maturity.

An investment cannot be made in the unmanaged indexes mentioned in this material.

A basis point (BP) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

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