

Fixed Income Weekly Primer

Fixed Income Solutions

The change in nonfarm payroll’s gigantic miss may have provided rationale to the Fed’s prevailing cautious market approach. The expected 1000k increase in payrolls hobbled in at 266k. In addition, previous payroll releases were revised down. The market tone had already been guarded, certainly not eased by Secretary Janet Yellen’s comments on interest rates. Yellen provided a mixed message perhaps hedging outcomes as she stated, “inflation won’t be an issue” coupled with, “interest rates will have to rise somewhat to make sure the economy doesn’t overheat.” When she walked-back her statement, the market did calm down.

The underlying message may be what we all know: don’t fight the Fed. The Fed has not swayed from being accommodative and they have not indicated that this will change despite media outlets often suggesting otherwise.

Treasuries rallied last week taking yields on US sovereign debt lower. The 2 year Treasury began the week yielding 16 basis points and closed Friday at a 0.14% yield. The 10 year Treasury began the week yielding 1.65% and closed Friday at a 1.60% yield. The “miss” in payroll numbers was somewhat countered by a significant upside surprise in average hourly earnings: -0.4% expected vs 0.3% actual. CPI (Consumer Price Index) on Wednesday and PPI (Producer Price Index) on Thursday will highlight the economic data releases this week.

Demand for fixed income remains resilient easily absorbing the \$10bn in municipal new issues. The market’s hunger for yield explains why higher yielding credits like Maine Health and Higher Education (A1/AA; AGM insured) were massively over-subscribed (\$1.8bn orders vs. \$86mln issuance). The substantial appetite for this issue bumped (lowered) yields 15bp – 25bp. Yield compression (difference between stronger AAA to AA credits and lesser A to BBB credits) continues in the municipal sector as well as most other fixed income sectors.

Although many investors continue to seek and perhaps stretch for yield, others are willing to pay up for specific structures. As spreads compress, conservative buyers may find this an appropriate time to strengthen portfolio quality by repositioning out of weaker credits and into higher quality credits.

Corporate bonds are seeing the same compression between stronger and lesser credits. Yield reach is bringing high yield bonds to all-time lows (in yield). General strong market participation, demand, and liquidity remain timely and robust with corporates. Opportunities exist in reopening names despite the tightening. Financials have solidified their financial standings/earnings and at the same time are providing comparative values for investors reaching 2% yield levels within a 5-9 year maturity range.

Our corporate traders see the investment grade spreads stabilize to the extent that they have tightened nearly as far as they can. A calming of overall volatility and forward rates will allow investors time to catch their breath and focus on what the market is giving. The BBB sector in corporate bonds is currently providing high quality, relatively attractive spreads for taxable buyers even in many after-tax comparisons for high net worth clients.

CDs remain in short supply as financial institutions need for short term funding is minimal.

Rates will likely continue to remain low and even the extreme ends of their trading range are at historically low rate levels. The pandemic created a very unconventional recession and it is likely the recovery will also have oddities throughout the recovery period.

	Friday	WEEK AGO	CHANGE		Friday	WEEK AGO	CHANGE		Friday	WEEK AGO	CHANGE
Equities (Price Appreciation)				Municipal (AAA) (YTW)				Corporate Index (A) (YTW)			
S&P 500	4232.60	4181.17	▲ 51.43	1 yr	0.056	0.057	▼ -0.001	1 yr	0.226	0.252	▼ -0.026
Treasuries (YTW)				5 yr	0.388	0.399	▼ -0.011	5 yr	1.173	1.233	▼ -0.060
1 yr	0.050	0.050	▲ 0.000	10 yr	0.930	0.961	▼ -0.031	10 yr	2.307	2.369	▼ -0.062
5 yr	0.770	0.860	▼ -0.090	30 yr	1.549	1.594	▼ -0.045	30 yr	3.172	3.200	▼ -0.028
10 yr	1.600	1.650	▼ -0.050	Municipal (AAA) TEY @ 37%				Corporate Index (BBB) (YTW)			
30 yr	2.280	2.300	▼ -0.020	1 yr	0.089	0.090	▼ -0.002	1 yr	0.448	0.489	▼ -0.041
Brokered CDs (YTW)				5 yr	0.616	0.633	▼ -0.017	5 yr	1.462	1.524	▼ -0.062
3 mo	0.030	0.020	▲ 0.010	10 yr	1.476	1.525	▼ -0.049	10 yr	2.660	2.717	▼ -0.057
6 mo	0.050	0.050	▲ 0.000	30 yr	2.459	2.530	▼ -0.071	30 yr	3.497	3.530	▼ -0.033
1 yr	0.100	0.100	▲ 0.000	MBS 30-yr (Current Coupon) (YTW)				Other Rates			
3 yr	0.300	0.250	▲ 0.050	FNMA	1.805	1.838	▼ -0.033	3m LIBOR	0.160	0.176	▼ -0.017
5 yr	1.000	1.000	▲ 0.000	GNMA	1.848	1.877	▼ -0.029	Fed Funds*	0.000	0.000	▲ 0.000

Source: Bloomberg LP, Raymond James as of 05/10/21 *Lower bound of range. All entries are percentages (%) unless otherwise noted.

DAY	EVENT	PERIOD	SURVEY	PRIOR		External Links:
Wed	CPI Ex Food & Energy YoY	Apr	2.3%	1.6%	<ul style="list-style-type: none"> • Bond Market Commentary • Interest Rate Monitor • Index Monitor • Fixed Income Quarterly 	<ul style="list-style-type: none"> • Investing In Bonds • MSRB
Wed	Real Avg Weekly Earnings	Apr	-	3.9%		
Fri	Retail Sales Advance MoM	Apr	1.0%	9.8%		
Fri	Capacity Utilization	Apr	75.1%	74.4%		
Fri	UMich Sentiment	May P	90.0	88.3		

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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 39.6% 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.

Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency, not bank guaranteed, subject to risk and may lose value

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880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

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