# 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 |
|---|---|---|---|
| **Equities (Price Appreciation)** | | | |
| S&P 500 | 4232.60 | 4181.17 | 51.43 |
| **Treasuries (YTW)** | | | |
| 1 yr | 0.050 | 0.050 | 0.000 |
| 5 yr | 0.770 | 0.860 | -0.090 |
| 10 yr | 1.600 | 1.650 | -0.050 |
| 30 yr | 2.280 | 2.300 | -0.020 |
| **Brokered CDs (YTW)** | | | |
| 3 mo | 0.030 | 0.020 | 0.010 |
| 6 mo | 0.050 | 0.050 | 0.000 |
| 1 yr | 0.100 | 0.100 | 0.000 |
| 3 yr | 0.300 | 0.250 | 0.050 |
| 5 yr | 1.000 | 1.000 | 0.000 |

| | Friday | WEEK AGO | CHANGE |
|---|---|---|---|
| **Municipal (AAA) (YTW)** | | | |
| 1 yr | 0.056 | 0.057 | -0.001 |
| 5 yr | 0.388 | 0.399 | -0.011 |
| 10 yr | 0.930 | 0.961 | -0.031 |
| 30 yr | 1.549 | 1.594 | -0.045 |
| **Municipal (AAA) TEY @ 37%** | | | |
| 1 yr | 0.089 | 0.090 | -0.002 |
| 5 yr | 0.616 | 0.633 | -0.017 |
| 10 yr | 1.476 | 1.525 | -0.049 |
| 30 yr | 2.459 | 2.530 | -0.071 |
| **MBS 30-yr (Current Coupon) (YTW)** | | | |
| FNMA | 1.805 | 1.838 | -0.033 |
| GNMA | 1.848 | 1.877 | -0.029 |

| | Friday | WEEK AGO | CHANGE |
|---|---|---|---|
| **Corporate Index (A) (YTW)** | | | |
| 1 yr | 0.226 | 0.252 | -0.026 |
| 5 yr | 1.173 | 1.233 | -0.060 |
| 10 yr | 2.307 | 2.369 | -0.062 |
| 30 yr | 3.172 | 3.200 | -0.028 |
| **Corporate Index (BBB) (YTW)** | | | |
| 1 yr | 0.448 | 0.489 | -0.041 |
| 5 yr | 1.462 | 1.524 | -0.062 |
| 10 yr | 2.660 | 2.717 | -0.057 |
| 30 yr | 3.497 | 3.530 | -0.033 |
| **Other Rates** | | | |
| 3m LIBOR | 0.160 | 0.176 | -0.017 |
| 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 percentage (%) unless otherwise noted.*

| DAY | EVENT | PERIOD | SURVEY | PRIOR |
|---|---|---|---|---|
| Wed | CPI Ex Food & Energy YoY | Apr | 2.3% | 1.6% |
| 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 |

- Bond Market Commentary
- Interest Rate Monitor
- Index Monitor
- Fixed Income Quarterly

External Links:

- Investing In Bonds
- MSRB

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