Fixed Income Weekly Primer

Fixed Income Solutions

Retail sales data released this past week was very strong, as levels both increased from September’s numbers and exceeded consensus forecasts for the current month. This points to a consumer that is still willing to spend despite higher prices, which is potentially a result of the excess money that still remains available to households for discretionary spending as a result of the pandemic and pandemic-induced stimulus efforts. Looking forward to this week’s holiday shortened calendar, Wednesday is set up to be a big day on the economic front. The FOMC’s preferred measure of inflation, PCE (Personal Consumption Expenditures), is scheduled to be released in the morning. In the afternoon, we get the November 3 FOMC Meeting Minutes. While Chair Jerome Powell did his best to explain the thinking and forward plans of the Committee at his press conference, the minutes will be combed through for any detail that might provide additional insight into the FOMC’s future plans. In other FOMC-related news, President Biden announced his nomination for the next FOMC chair on Monday morning, nominating current Chair Powell for a second four-year term.

Treasuries rallied last week, taking prices higher and yields lower across the entire curve past 1-year. The benchmark 10-year yield remains range bound at 1.58% this Monday morning, as it has been bouncing around in the mid-1.40% to the mid-1.60% range for the past month. Notably, the 2-year yield is currently trading at its highest level of the year at 0.55%. The short end of the curve has reacted much more strongly than intermediate and long-term yields to market sentiment that the FOMC could act sooner than previously expected due to high inflation levels. Bloomberg calculations point to the market pricing in an initial rate hike by next July and potentially one to two more by the end of next year.

Investment-grade corporate yields rose slightly last week, with short and intermediate yields rising by a few basis points in both the A-rated and BBB-rated space. Spreads widened across both investment-grade (2-4 basis points) and high-yield (19 basis points) corporates week-over-week. Municipal yields were mostly unchanged, with the benchmark AAA curve finishing the week less than a basis point from where it started. With the holiday this week, new issuance is expected to be fairly light, with under $500 million expected in the municipal space (according to The Bond Buyer) and $10-15 billion expected in investment-grade corporates (per Bloomberg).

CD rates were mostly higher for the week. The number of available issuers increased by 3 (from 43 to 46). The total number of CDs available also increased (from 128 to 138). 22 issuers listed offerings between 3-months and 1-year totaling $5.5mm (vs. last week’s $4.5mm) and averaging a 0.133% yield-to-maturity (vs. last week’s 0.123%). 41 issuers listed offerings between 3-months and 5-years totaling $10.25mm (vs. last week’s $9.75mm) and averaging a 0.555% yield-to-maturity (vs. last week’s 0.551%).
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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.

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