Fixed Income Weekly Primer

Fixed Income Solutions

TREASURIES
Treasury yields moved lower by 1-2 basis points for maturities 5 years and shorter while they sold off taking yields higher for maturities beyond 5 years. The 2-year Treasury is yielding around 13 basis points this morning and has traded in a tight 6 basis point range since the end of June (11-17 basis points). The 10-year Treasury hit its highest yield level since June 16th as it closed Friday at a 0.74% yield. It is going to be a busy week for economic data that will be highlighted by the employment report Friday which includes the Unemployment Rate, Average Hourly Earnings and Change in Non-Farm Payrolls.

BROKERED CDs
CD rates were mixed for the week. The number of available issuers decreased by 10 (from 43 to 33). The total number of CDs available also decreased (from 99 to 76). 7 issuers listed offerings between 3-months and 1-year totaling $1.75mm (vs. last week’s $4.5mm) and averaging a 0.093% yield-to-maturity (vs. last week’s 0.089%). 28 issuers listed offerings between 3-months and 5-years totaling $7mm (vs. last week’s $10mm) and averaging a 0.292% yield-to-maturity (vs. last week’s 0.243%).

MUNICIPALS
Municipal yields moved higher for the third consecutive week. Shorter term AAA yields increased by 2-3 basis points, while longer maturities increased by 8-10 basis points. The slope of the municipal curve is steeper in the 5-15 year range, as short term yields remain compressed and the long end of the curve remains relatively flat. Muni-Treasuries ratios remain high compared to historical norms, with both the 10 and 30-year ratios above 100%. Ipreo is forecasting $8.5 billion in new issuance this week. The largest deal of the week comes from the State of California (Aa2/AA/-AA) with a $2.4 billion general obligation deal. Other large deals include: California State University (Aa2/AA-) with a $1.3 billion deal consisting of ~$1 billion of taxable bonds and ~$300 million of tax-exempt bonds; and the State of Florida (Aa3/AA/AA) is selling $2.25 billion of taxable bonds consisting of $1.3 billion of taxable bonds and $1 billion of tax-exempt bonds on behalf of the Board of Administrative Finance Corp. See the New Issue Calendar for additional new issuance coming to market this week.

CORPORATES
Investment-grade (IG) corporate yields followed the direction of Treasuries and were mixed last week. Short-term yields fell slightly (by 1-2 basis points), while intermediate and long-term yields rose, with 10-year yields rising by 10-12 basis points. These corresponding moves had a steepening effect on the corporate curve, pushing the 1 to 10 year slope on the BBB-rated curve up to 157 basis points. Spreads were little changed for the week, with most indexes finishing within a basis point of where they started. As short-term yields remain low, the most value on the corporate curve can be found in the 5-10 year range. On average, investors can increase yield by nearly 1% by moving from 5-year BBB corporates out to 10-years. New issuance is expected to take a step back this week, with just $5 billion in IG bonds expected to come to market, per Bloomberg estimates. Last week saw $16 billion in IG issuance, which puts the YTD total at ~$1.38 trillion.

<table>
<thead>
<tr>
<th>DAY</th>
<th>EVENT</th>
<th>PERIOD</th>
<th>SURVEY</th>
<th>PRIOR</th>
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</thead>
<tbody>
<tr>
<td>Tues</td>
<td>ISM Manufacturing</td>
<td>Aug</td>
<td>54.6</td>
<td>54.2</td>
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<tr>
<td>Thurs</td>
<td>Continuing Claims</td>
<td>Aug 22</td>
<td>1400k</td>
<td>1453k</td>
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<tr>
<td>Fri</td>
<td>Average Hourly Earnings YoY</td>
<td>Aug</td>
<td>4.4%</td>
<td>4.8%</td>
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<tr>
<td>Fri</td>
<td>Change in Nonfarm Payrolls</td>
<td>Aug</td>
<td>1400k</td>
<td>1783k</td>
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<tr>
<td>Fri</td>
<td>Unemployment Rate</td>
<td>Aug</td>
<td>9.8%</td>
<td>10.2%</td>
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</tbody>
</table>

Stocks set for five months of gains as stimulus fuels… (Reuters)
Fed’s targeting of higher inflation could backfire… (Reuters)

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

External Links:
- Investing In Bonds
- MSRB
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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.