Stocks sink on dismal economic data, mixed trade signals (Reuters)
Euro zone economic rebound not in sight: ECB’s Draghi (Reuters)
Fixed Income Market Commentary by Kevin Giddis (RaymondJames.com)

TREASURIES

The Treasury market rallied retracing half of the yield increase from the previous week. The 2 year Treasury dropped 10 basis points (bp) from 1.79% to 1.69% while the 10 year note fell 16 bp to 1.74%. The Fed announced it will conduct overnight repo operations through October 10th. The rarely used operation stirred some uncertainty early last week. The market remains sensitive to trade dialogue between the U.S. and China. As anticipated, the FOMC cut Fed Funds by 25 bp despite the economy exhibiting positive growth. Global conditions remain more economically negative and worldwide interest rates far below domestic rates. Core PCE and home sales are announced on Thursday while personal income, durable goods orders and personal spending all are released on Friday.

BROKERED CDs

CD rates were mostly higher when compared to the prior week, with most maturities up by 5 to 15 basis points. The number of banks in the market went up by 6, from 82 to 88. The total number of CDs available increased from 172 to 202. For a 3-month to 1-year ladder, there were 53 banks available for a total of $13.25mm and a YTM of 1.849%. The amount invested is the same compared to last week’s $19.25mm but the YTM is higher from last week’s 1.821%. For a 3-month to 5-year ladder, there were 77 banks available for a total of $19.25mm and a YTM of 1.859%. The amount invested is the same compared to last week’s $19.25mm but the YTM is higher from last week’s 1.812%.

MUNICIPALS

Municipal bond yields were mixed for the week, with short yields inching higher by 1-2 basis points and intermediate to long yields falling by 1-5 basis points. Despite the yield pullback last week, municipal yields are still higher across the board month-over-month, as short yields are ~16 bp higher than they were a month ago, while the 30-year is ~8 bp higher. On the new issue front, $8 billion is expected to come to market this week.

The largest deal of the week comes from the Texas Water Development Board (NR/AAA/AAA) which is selling $853 million in revenue bonds. The State of Mississippi (Aa2/AA/AA) is selling $400 million in general obligation bonds, split between a taxable and tax-exempt series. See the New Issue Calendar for additional transactions coming to market this week.

CORPORATES

Investment grade yields reversed course last week with most indexes falling by 16-17 basis points. Even with the rate pullback, yields are still higher month-over-month by 5-7 bp. The 4 to 10 year window is still the sweet spot of the curve, as the short part of the curve remains relatively flat. Combine this with the potential reinvestment risk that is inherent in purchasing short-maturity bonds, and most investors likely have incentive to move out farther on the curve to lock in current interest rates. Bloomberg is calling for just $20 billion in investment-grade corporate issuance this week, a sharp retreat from the $75 billion that we saw in the first week of September.

Treasury Market Rallyed Retracing Half of the Yield Increase from the Previous Week. The 2-Year Treasury Dropped 10 Basis Points (bp) from 1.79% to 1.69% While the 10-Year Note Fell 16 Bp to 1.74%. The Fed Announced It Will Conduct Overnight Repo Operations Through October 10th. The Rarely Used Operation Stirred Some Uncertainty Early Last Week. The Market Remains Sensitive to Trade Dialogue Between the U.S. and China. As Anticipated, the FOMC Cut Fed Funds by 25 Bp Despite the Economy Exhibiting Positive Growth. Global Conditions Remain More Economically Negative and Worldwide Interest Rates Far Below Domestic Rates. Core PCE and Home Sales Are Announced on Thursday While Personal Income, Durable Goods Orders and Personal Spending All Are Released on Friday.

CD Rates Were Mostly Higher When Compared to the Prior Week, with Most Maturities Up by 5 to 15 Basis Points. The Number of Banks in the Market Went Up by 6, from 82 to 88. The Total Number of CDs Available Increased from 172 to 202. For a 3-Month to 1-Year Ladder, There Were 53 Banks Available for a Total of $13.25mm and a YTM of 1.849%. The Amount Invested Is the Same Compared to Last Week’s $19.25mm But the YTM Is Higher from Last Week’s 1.821%. For a 3-Month to 5-Year Ladder, There Were 77 Banks Available for a Total of $19.25mm and a YTM of 1.859%. The Amount Invested Is the Same Compared to Last Week’s $19.25mm But the YTM Is Higher from Last Week’s 1.812%.

Municipal Bond Yields Were Mixed for the Week, with Short Yields Inchling Higher by 1-2 Basis Points and Intermediate to Long Yields Falling by 1-5 Basis Points. Despite the Yield Pullback Last Week, Municipal Yields Are Still Higher across the Board Month-Over-Month, as Short Yields Are ~16 Bp Higher Than They Were a Month Ago, while the 30-Year Is ~8 Bp Higher. On the New Issue Front, $8 Billion Is Expected to Come to Market This Week.

The Largest Deal of the Week Comes from the Texas Water Development Board (NR/AAA/AAA) Which Is Selling $853 Million in Revenue Bonds. The State of Mississippi (Aa2/AA/AA) Is Selling $400 Million in General Obligation Bonds, Split Between a Taxable and Tax-Except Series. See the New Issue Calendar for Additional Transactions Coming to Market This Week.

Investment Grade Yields Reversed Course Last Week with Most Indexes Falling by 16-17 Basis Points. Even with the Rate Pullback, Yields Are Still Higher Month-Over-Month by 5-7 Bp. The 4 to 10 Year Window Is Still the Sweet Spot of the Curve, as the Short Part of the Curve Remains Relatively Flat. Combine This with the Potential Reinvestment Risk That Is Inherent in Purchasing Short-Maturity Bonds, and Most Investors Likely Have Incentive to Move Out Farther on the Curve to Lock in Current Interest Rates.
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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.