TREASURIES

Treasuries had a significant rally last week taking yields lower on weaker than expected economic data. ISM (Institute for Supply Management) Manufacturing and Non-Manufacturing fell to levels we haven’t seen since August ’16, and while the Unemployment Rate dropped to 3.5% (from 3.7%), Average Hourly Earnings came in at 0.0% month over month while 0.2% was expected. This was significant because Treasuries have been less data dependent and more news (China trade talk, etc.) dependent in the recent past. The 2 year Treasury began the week yielding 1.63% and closed Friday at a 1.40% yield. The 10 year Treasury began the week yielding 1.69% and closed Friday at a 1.52% yield. Economic data this week includes PPI (Producers Price Index) numbers to be released Tuesday, the FOMC minutes to be released Wednesday and CPI (Consumer Price Index) numbers to be released Thursday.

BROKERED CDs

CD rates were mostly unchanged when compared to the prior week. The number of banks in the market went down by 34, from 98 to 64. The total number of CDs available went down from 228 to 142. For a 3-month to 1-year ladder, there were 44 banks available for a total of $11mm with a YTM of 1.836%. The amount invested is lower compared to last week’s $16.25mm and the YTM is slightly lower from last week’s 1.863%. For a 3-month to 5-year ladder, there were 63 banks available for a total of $15.75mm with a YTM of 1.878%. The amount invested is lower compared to last week’s $23mm but the YTM is slightly higher from last week’s 1.876%.

MUNICIPALS

Municipal bonds rallied last week, taking prices higher and yields lower. The shift lower in yields was roughly parallel across the curve, as most of the curve finished the week 10-12 basis points lower than it started. The mun-Treasury ratio, a popular market measure indicating relative value of municipal securities, increased by over 2% last week, to ~88.5%, as Treasury yields fell more than their municipal counterparts. On the new issue front, $6.42 billion is expected to come to market this week, according to The Bond Buyer, with several large taxable deals on tap. The Massachusetts Water Authority (Aa1/AA+/AA+) is bringing a $597 million issue of general obligation taxable green bonds to market on Thursday. In another large taxable offering, the District of Columbia Water and Sewer Authority (Aa1/AA/AA+) will be issuing $343 million of public utility subordinate lien revenue refunding bonds on Tuesday. See the New Issue Calendar for additional transactions coming to market this week.

CORPORATES

Corporate bonds rallied alongside Treasuries pushing yields down and also tightening spreads across the curve. High yield index rates jumped significantly as their spreads widening for the week. This week’s investment grade corporate issuance is expected to be ~$15 billion according to a Bloomberg pole of dealers, the same projected amount as last week although only ~$10 billion came.
The author of this material is a Trader in the Fixed Income Department of Raymond James & Associates (RJA), and is not an Analyst. Any opinions expressed may differ from opinions expressed by other departments of RJA, and are subject to change without notice.

The data and information contained herein was obtained from sources considered to be reliable, but RJA does not guarantee its accuracy and/or completeness. Neither the information nor any opinions expressed constitute a solicitation for the purchase or sale of any security referred to herein.

Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the third-party web sites or their respective sponsors. Raymond James is not responsible for the content of any web site or the collection or use of information regarding any web site’s users and/or members.

This material may include analysis of sectors, securities and/or derivatives that RJA may have positions, long or short, held proprietarily. RJA or its affiliates may execute transactions which may not be consistent with the report’s conclusions. RJA may also have performed investment banking services for the issuers of such securities.

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 at 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 limited 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 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.