European gov't bonds rally broadly as China ups stakes in trade war (Reuters)  
China Takes on Trump by Weakening Yuan, Halting Crop Imports (Bloomberg)  
Fixed Income Market Commentary by Kevin Giddis (RaymondJames.com)

TREASURIES

Treasuries rallied significantly last week dropping short term yields ~14bp-15bp on the short end and by as much as 22bp on the longer end of the curve. The 1 year Treasury yield fell to 1.85% from 2.00%. Treasury Bills also rallied moving 3mo and 6mo yields down 6bp and 9bp, respectively. The 10-year Treasury closed Friday at a 1.86% (22bp from 2.08%), its lowest yield since November 7, 2016. The market appeared to have anticipated the Fed’s 25bp rate cut although around 20% of consensus projected a 50bp cut. The FOMC also announced an early shutdown to the balance sheet run-off, as well as a general reassurance that inflation pressures are muted. President Trump increased China/U.S. trade tension with a tweet indicating an additional tariff of 10% on the remaining $30 billion of Chinese imports. Friday’s PPI will be this week’s biggest release.

BROKERED CDs

CD rates were mostly flat to lower for the week. With the sharp moves lower in interest rates over the past few days, many issuers are waiting until rates level off before entering the market or have closed out offerings early due to market volatility. The number of banks in the market went down by 70, from 116 to 46. The total number of CDs available went down from 218 to 98. For a 3-month to 1-year ladder, there were 30 banks available for a total of $7.5mm and with a YTM of 1.981%. The amount invested is lower compared to last week’s $19.5mm but the YTM is slightly higher from last week’s 1.979%. For a 3-month to 5-year ladder, there were 42 banks available for a total of $10.5mm and with a YTM of 2.056%. The amount invested is lower compared to last week’s $26.5mm but the YTM is slightly lower from last week’s 2.032%.

MUNICIPALS

Municipal bonds rallied along with the rest of the market last week, taking yields lower by 6 to 10 basis points across the curve. Short-term yields are just north of the 1% barrier, with the 1-year falling by almost 7 bp to 1.01% as of Friday’s close. Long-term yields fell by ~10 basis points, taking the 30-year down to 2.16%. This takes the 1 to 30 year slope down to 115 basis points. Municipal new issuance is expected to surge this week, with $12.6 billion expected to come to market, with three deals expected to exceed the $1 billion threshold. CommonSpirit Health (Baa1/BBB+/BBB+), the newly created entity formed by the merger of Dignity Health and Catholic Health Initiatives, leads the way with a $5.1 billion issue consisting of both tax-exempt and taxable bonds. The bonds will be issued via conduits in Colorado, Kentucky, Tennessee, and Washington. The Port Authority of New York and New Jersey (Aa3/AA-/AA-) is selling $1.25 billion in bonds, which will be a combination of taxable, tax-exempt, and AMT bonds on Wednesday. Rounding out the larger deals is the Dallas Fort Worth International Airport’s (A1/A+/A+) $1.17 billion joint revenue refunding taxable bond issue. See the New Issue Calendar for additional transactions coming to market this week.

CORPORATES

General market rallies have created favorable total returns for corporate indexed total returns. However, corporate yields have not escaped the fast dropping interest rate environment pulling both investment grade and high yield bonds lower in yield. Spreads actually widened for the week helping to soften the large Treasury rate drop-off. Energy company bonds widened the most of all sectors. Investment grade issuance is expected to be ~$30 billion for the week. Occidental Petroleum is funding its Anadarko acquisition, one of the larger merger deals.

<table>
<thead>
<tr>
<th>Day</th>
<th>Event</th>
<th>Period</th>
<th>Survey</th>
<th>Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tues</td>
<td>JOLTS Job Openings</td>
<td>June</td>
<td>7400</td>
<td>7323</td>
</tr>
<tr>
<td>Wed</td>
<td>Initial Jobless Claims</td>
<td>Aug 3</td>
<td>215k</td>
<td>215k</td>
</tr>
<tr>
<td>Fri</td>
<td>PPI Ex Food &amp; Energy MoM</td>
<td>July</td>
<td>0.2%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Fri</td>
<td>PPI Final Demand YoY</td>
<td>July</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Fri</td>
<td>PPI Ex Food &amp; Energy YoY</td>
<td>July</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Source: Bloomberg LP, Raymond James as of 08/05/19
*Lower bound of range. All entries are percentage (%) unless otherwise noted.
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 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 swaps 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.