

# Fixed Income Weekly Primer

## Fixed Income Solutions

Last week's Treasury market was a microcosm view on this entire year's volatility. Ten year note prices fell Monday, rallied Tuesday and Wednesday and leveled off until a late Friday drop. At the end of the week, the intermediate part of the Treasury curve was up 5 to 12 basis points in yield with the long bond (30 year) up just 1bp. Friday's Producer Price Index (PPI) gave affirmation that the Fed still has work to do in order to get inflation in check as the various price releases were higher than anticipated levels. This week looms important with Consumer Price Index (CPI) on Tuesday giving the Federal Open Market Committee a final glance at inflationary data as they meet this week. The FOMC will announce whether they continue to combat inflation by raising rates for a 7th time this year. Year-to-date, the Fed has moved the Fed Funds rate up 375 bp and it has been highly anticipated that they may increase the rate another 50 bp this week and again at least during the first meeting (February 1) in 2023 if not several times more. The market is battling the idea that continued hikes will spark a recession and the mixed bag of economic data reflecting remarkable resilience yet dotted with signs of trouble ahead. Retail sales data will also be released but after the Fed announcement and data which will not yet reflect how the holiday spending is going.

Municipal yields fell last week as demand, especially on the short end, continues to outpace supply. Tax-equivalent municipal yields struggle to match Treasury yields inside of three years. According to The Bond Buyer, municipal issuance has declined 47% year-over-year as issuers weigh the continued market volatility and uncertain Federal Reserve policy. With the Fed meeting this week, issuance is again likely to be light. Yet the municipal curve remains positively sloped throughout providing investors relatively high tax-equivalent yields in intermediate and long duration paper. The corporate curve also remains positively sloped through 15 years. Coupled with the spread, corporate bonds offer +5.0% yields throughout the entire corporate curve. As long as the Fed continues to hike Fed Funds and keeping in front of any announced recession, spread products like municipal and corporate bonds afford investors welcome income opportunity.

CD rates were mixed for the week. The number of available issuers increased (from 74 to 78). The total number of CDs available decreased (from 168 to 161). 61 issuers listed offerings between 3-months and 1-year totaling \$15.25mm (vs. last week's \$14.5mm) and averaging a 4.371% yield-to-maturity (vs. last week's 4.287%). 78 issuers listed offerings between 3-months and 5-years totaling \$19.5mm (vs. last week's \$18.5mm) and averaging a 4.411% yield-to-maturity (vs. last week's 4.398%).

	Friday	WEEK AGO	CHANGE		Friday	WEEK AGO	CHANGE		Friday	WEEK AGO	CHANGE
<b>Equities (Price Appreciation)</b>				<b>Municipal (AAA) (YTW)</b>				<b>Corporate Index (A) (YTW)</b>			
S&P 500	3934.38	4071.70	▼ -137.32	1 yr	2.491	2.454	▲ 0.038	1 yr	4.746	4.626	▲ 0.120
<b>Treasuries (YTW)</b>				5 yr	2.471	2.533	▼ -0.062	5 yr	4.635	4.515	▲ 0.121
1 yr	4.720	4.690	▲ 0.030	10 yr	2.570	2.645	▼ -0.075	10 yr	4.811	4.737	▲ 0.074
5 yr	3.750	3.670	▲ 0.080	30 yr	3.451	3.457	▼ -0.006	30 yr	4.880	4.880	▬ 0.000
10 yr	3.570	3.510	▲ 0.060	<b>Municipal (AAA) TEY @ 37%</b>				<b>Corporate Index (BBB) (YTW)</b>			
30 yr	3.560	3.560	▬ 0.000	1 yr	3.954	3.894	▲ 0.060	1 yr	5.218	5.132	▲ 0.086
<b>Brokered CDs (YTW)</b>				5 yr	3.923	4.021	▼ -0.098	5 yr	5.216	5.112	▲ 0.104
3 mo	4.200	4.000	▲ 0.200	10 yr	4.079	4.198	▼ -0.119	10 yr	5.448	5.386	▲ 0.062
6 mo	4.700	4.500	▲ 0.200	30 yr	5.478	5.488	▼ -0.010	30 yr	5.323	5.324	▼ -0.001
1 yr	4.750	4.700	▲ 0.050	<b>MBS 30-yr (Current Coupon) (YTW)</b>				<b>Other Rates</b>			
3 yr	4.500	4.100	▲ 0.400	FNMA	5.161	4.889	▲ 0.272	3m LIBOR	4.733	4.733	▬ 0.001
5 yr	4.150	4.200	▼ -0.050	GNMA	5.044	4.811	▲ 0.233	Fed Funds	3.820	3.820	▬ 0.000

Source: Bloomberg LP, Raymond James as of 12/12/22 All entries are percentage (%) unless otherwise noted.

DAY	EVENT	PERIOD	SURVEY	PRIOR
Tues	CPI YoY	Nov	7.3%	7.7%
Tues	CPI MoM	Nov	0.3%	0.4%
Tues	CPI Ex Food & Energy YoY	Nov	6.1%	6.3%
Wed	FOMC Rate Decision (Upper)	Dec 14	4.50%	4.00%
Thurs	Retail Sales Advance MoM	Nov	-0.2%	1.3%

- [Bond Market Commentary](#)
- [Interest Rate Monitor](#)
- [Fixed Income Quarterly](#)

- External Links:
- [FINRA](#)
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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

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