RAYMOND JAMES

December 12, 2022

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
Equities (Price Appreciation)			
S&P 500	3934.38	4071.70	-137.32
Treasuries (YTW)			
1 yr	4.720	4.690	0.030
5 yr	3.750	3.670	0.080
10 yr	3.570	3.510	0.060
30 yr	3.560	3.560	0.000
Brokered CDs (YTW)			
3 mo	4.200	4.000	0.200
6 mo	4.700	4.500	0.200
1 yr	4.750	4.700	0.050
3 yr	4.500	4.100	0.400
5 yr	4.150	4.200	-0.050

	Friday	WEEK AGO	CHANGE
Municipal (AAA) (YTW)			
1 yr	2.491	2.454	0.038
5 yr	2.471	2.533	-0.062
10 yr	2.570	2.645	-0.075
30 yr	3.451	3.457	-0.006
Municipal (AAA) TEY @ 37%			
1 yr	3.954	3.894	0.060
5 yr	3.923	4.021	-0.098
10 yr	4.079	4.198	-0.119
30 yr	5.478	5.488	-0.010
MBS 30-yr (Current Coupon) (YTW)			
FNMA	5.161	4.889	0.272
GNMA	5.044	4.811	0.233

	Friday	WEEK AGO	CHANGE
Corporate Index (A) (YTW)			
1 yr	4.746	4.626	0.120
5 yr	4.635	4.515	0.121
10 yr	4.811	4.737	0.074
30 yr	4.880	4.880	0.000
Corporate Index (BBB) (YTW)			
1 yr	5.218	5.132	0.086
5 yr	5.216	5.112	0.104
10 yr	5.448	5.386	0.062
30 yr	5.323	5.324	-0.001
Other Rates			
3m LIBOR	4.733	4.733	0.001
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

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