RAYMOND JAMES

FOURTH QUARTER 2023

Fixed Income Quarterly

Market Perspectives from Fixed Income Solutions

Upside Down World?

Who said bonds are boring? Investors are no strangers to the uncertainty that has rained down on the bond world. Consumers have exhibited unrestrained spending thereby boosting retail sales and the U.S. Gross Domestic Product (GDP) to levels above expectations. Yet, personal savings are on a downward trajectory. Corporate earnings seem to regularly beat expectations. Yet, investors demonstrate a love-hate relationship with the equity market creating volatile movements in either direction. Credit card debt is rising to unprecedented levels. Mortgage rates hover around 8%, hindering the housing market. Auto loan rates are ticking up and student loan payments have been reinstated. Consumer's debt load is on the rise. Government backstops for the most part are in the rear view and excess money handouts are assessed to be completely depleted. There is much to digest!

If there is a silver lining among all the confusion, despite intermittent extreme yield shifts, relatively high yield levels persist. This is good news for fixed income portfolio allocations. Fixed income endures as a primary wealth preservation strategy. But it is the high-income potential and cash flow benefits bringing crowds of investors into the bond world. It is not too late to benefit from income levels not seen in 16-plus years.

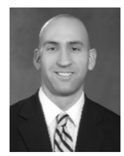
Bond persons tend to be practical so it should come as no surprise that this window of income opportunity needs to be viewed with eyes wide open. This is no time to wait for a little extra or the perfect moment. Historically speaking, today's yields can provide very good long term results and it may be more likely that these levels disappear before they get even better. With our eyes wide open, we continue to closely watch market dynamics. Our "watch" list includes many variables but focuses on three particular events that can impact interest rates quickly.

1. A change in Fed policy or the end of the Fed tightening cycle. The Fed has raised (tightened) the Fed Funds rate by 525 basis points over a relatively short period (~17mos). History reveals that when the Fed is done, interest rates tend to start falling.
2. An announced recession pushed by the cumulation of current market stresses.
3. Geopolitical events escalating in any number of ways.

Fixed income enthusiasts may find satisfaction in this quarterly's attempt to bring a little bit of order to this market chaos. We work to keep your financial world right side up!

FIXED INCOME QUARTERLY CONTRIBUTING STRATEGISTS

DOUG DRABIK



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IN THIS REPORT

PUTTING SOME NUMBERS ON REINVESTMENT RISK

Reinvestment risk occurs when fixed income cash flows must be reinvested at lower yields than the original investment. Understanding reinvestment risk helps ensure that an investor's portfolio structure aligns with long-term financial plans. For investors who are unfamiliar with this type of risk, the current shape of the yield curve may tempt investors to expose their portfolios to the potential negative consequences that come along with it. Short-term yields are higher in an inverted curve and therefore can entice investors to purchase shorter instead of longer maturity bonds. The shorter bonds may even be perceived as less risky. If given two options offering a similar yield, why not take the "less risky" option?

The answer is: reinvestment risk. Shorter maturity bonds do not necessarily have less risk versus the longer maturity bonds, they just come with a different type of risk.

A 10-year maturity locks in the yield for 10 years. A 2-year maturity only locks in the yield for 2 years, after which the proceeds must be reinvested back into the market in the prevailing interest rate environment. That is where the reinvestment risk comes in. If yields are lower two years from now, an investor must reinvest the proceeds into a lower yield.

A $1 million investment's cash flows over a 10-year period assumes that yields are lower two years from now. The left side shows an initial purchase of a 2-year 6% yield bond, earning $60,000 in cash flow per year. When that bond matures after 2 years, yields have moved lower so an 8-year bond is purchased at a yield of 5%, producing $50,000 in cash flow per year. The numbers on the right represent purchasing a 10-year bond at a 6.45% yield, which provides $64,500 in annual cash flow. The initial decision to purchase a 2-year bond exposed the investor to reinvestment risk. When interest rates fall, reinvestment occurs 2 years later into lower yielding bonds. This reinvestment cost ($125,000) of cash flow due to the lower yields associated with a fallen interest rate environment.

Purchase a 2-year bond at 6.00% and reinvest into an 8-year bond at 5.00%		Purchase 10-Year Bond at 6.45%	
Year 1	$60,000	Year 1	$64,500
Year 2	$60,000	Year 2	$64,500
Year 3	$50,000	Year 3	$64,500
Year 4	$50,000	Year 4	$64,500
Year 5	$50,000	Year 5	$64,500
Year 6	$50,000	Year 6	$64,500
Year 7	$50,000	Year 7	$64,500
Year 8	$50,000	Year 8	$64,500
Year 9	$50,000	Year 9	$64,500
Year 10	$50,000	Year 10	$64,500
Total	**$520,000**	**Total**	**$645,000**

Sources: Raymond James, Bloomberg LP. Hypothetical example for illustrative purposes only uses approximate BBB-rated corporate bond yields as of 11/1/23 and assumes no reinvestment of coupon cash flow.

LOWER RISK OPTIONS

Treasuries, brokered CDs, and agency mortgage-backed securities are three popular product types for investors who are looking to invest in individual bonds but want to take little to no credit risk. Since the credit quality of all three is extremely high, other characteristics of each security type are typically the determining factor when deciding which is appropriate for an investor.

> *"Think left and think right and think low and think high. Oh, the thinks you can think up if only you try!"* – Dr. Seuss

U.S. TREASURIES

- Backed by the full faith and credit of the United States government
- Various Treasury types exist: bills, notes, TIPS, FRNs, STRIPS
- Maturities range from 4 weeks to 30 years
- Zero coupon and coupon-bearing choices are available
- Interest income is exempt from state and local income taxes
- U.S. government securities may offer many benefits, including high credit quality, predictability of interest income, liquidity and tax advantages – all to help meet the needs of risk-conscious investors and enhance the performance of their portfolios

BROKERED CDs

- FDIC-insured up to $250,000 in principal and interest per financial institution per beneficial owner. See FDIC website for details: https://www.fdic.gov/resources/deposit-insurance/index.html
- A range of maturities is generally available although a majority of offerings are 5 years and shorter
- CDs may pay interest monthly, quarterly, semiannually, or at maturity
- CDs may be callable or non-callable
- Offer a Survivor's Option, which allows the estate, under certain circumstances and upon the death of the holder(s), to redeem CDs from the issuer at par plus accrued interest
- If an investor's primary goals include principal preservation and income, brokered certificates of deposit (CDs) can serve as a sound portfolio foundation.

AGENCY MORTGAGE-BACKED SECURITIES (MBS)

- Backed by a pool of mortgages. Ginnie-Mae securities are backed by the US government. Fannie Mae and Freddie Mac are backed by the respective government-sponsored enterprises
- Offer monthly cash flows

- Subject to prepayment risk: the risk that homeowners may pay off their mortgages faster than required. Prepayments usually occur when interest rates decline. As the principal is returned sooner than expected, MBS holders may be forced to reinvest at prevailing lower yields
- Subject to extension risk: the risk that the homeowners will not pay off their mortgage loans as soon as expected, meaning that investors may end up holding bonds with maturities longer than expected and the yield may or may not keep up with rising inflation or market interest rates

When looking for credit-conservative choices, Treasuries, brokered CDs, and Agency MBS stand out. The most appropriate choice between the three may depend on specific security characteristics and investor's needs and goals. The vast supply and liquidity or the state tax exemption of Treasuries could be the determining factors for investors, especially those in high-income tax rate states. Brokered CDs can sometimes offer a yield advantage over Treasuries or sometimes a survivor's option feature. Agency MBS are high-credit quality investments that may provide yield pick-ups over Treasuries and brokered CDs.

For additional product info, visit: https://www.raymondjames.com/wealth-management/advice-products-and-services/investment-solutions/fixed-income/taxable-bonds

UNDERSTANDING GAINS OR LOSSES ON MONTHLY STATEMENTS

Yields are at some of their highest levels in over a decade which means investors who own fixed income in their portfolio may see unrealized losses on monthly statements. (There is an inverse relationship between price and yield. Higher yields translate to lower prices and vice-versa). Understanding why fixed income is held in portfolios may help investors to rationalize changing monthly statements.

For most investors, the fixed income allocation is intended to be the ballast of the portfolio. Bonds are typically purchased for certain stable, known and unique attributes: a known maturity date, a known maturity value, a known yield, and known cash flows over the life of the bond. These key characteristics are locked in from the date of purchase. Much can change over the holding period of the bond, but as long as a bond is held until the maturity date, market activity (price and yield changes) are just background noise that do not effect these key attributes.*

The price of a bond will change over time, meaning that monthly or quarterly statements will likely show gains and/or losses. A key point is that these gains or losses are unrealized, reflecting only point-in-time value should the bond be redeemed at that moment. When held to maturity, a bond normally retires at par. Thus, interim price movements during the holding period become irrelevant. The benefits of a bond do not change because of interim price movements.

A COMPARATIVE ILLUSTRATION

The concept of ignoring fluctuating prices may cause stress for bond investors. Homeownership may be common and familiar ground providing a meaningful comparative illustration. A homeowner purchased a house a year ago for $500,000. Today, that homeowner visits a real estate website and notices that the home's estimated value has increased to $600,000. Does this price change alter any of the benefits that the home is providing? No. An extra bedroom does not appear. It does not shorten the owner's commute. The number of beds and baths, square footage, and locale in the neighborhood are fixed. The house still serves the same purpose that it served a year ago at purchase: it is providing a roof over the family's head and the foundation attributes remain intact.

KEY POINT

These gains or losses are unrealized, reflecting only point-in-time value should the bond be redeemed at that moment. When held to maturity, a bond normally retires at par. Thus, interim price movements during the holding period become irrelevant. The benefits of a bond do not change because of interim price movements.

A consistent notion exists for the bond holdings in an investor's portfolio. A portfolio statement may indicate that a past bond purchase has a loss. However, the statement's market loss does not change any of the bond's benefits. The annual cash flow, yield, and maturity date remain fixed, regardless of interest rate or price changes. There are only two events that can change the fixed benefits of a bond. One is an outright default. Since most holdings are high-quality investment-grade credits, a default is highly unlikely. The other event that can alter a bond's fixed benefits is selling the bond prior to maturity. In this case, the at-the-moment market price can positively or negatively affect a bond's return.

ANNUAL STATEMENT DATA POINTS

In this hypothetical example, the annual statement displays a $100,000, new issue, 2.25% coupon, par-priced (100), 7-year Treasury bond purchase in January of 2017 that matures on 12/31/2023. The key characteristics of the bond do not change over the life of the bond. The annual cash flow, redemption value, and maturity date do not change despite the daily price movements. The Unrealized Gain/Loss column will also change daily along with the price movements. However, assuming that the bond is held to maturity, these daily fluctuations become nothing more than market indicators taking nothing from the fixed benefits captured by the investor. On December 31, 2023, the bond matures at par. The investor receives the face value in addition to all the regular coupon payments received during the holding period. The $6,234 December 31, 2020, statement gain, December 31, 2022, ($2,430) loss, or any other reported change are never carried out and therefore never alter the cash flow or income earned. Fixed income delivers an important portfolio role in a portfolio by providing known aspects for investor planning and long-term strategy.

Statement Date	Acquisition Yield	Coupon	Annual Cash Flow	Maturity Date	Maturity Value	Market Price	Unrealized Gain/Loss
December 31, 2017	2.25%	2.25%	$2,250	12/31/2023	$100,000	99.82	-$176
December 31, 2018	2.25%	2.25%	$2,250	12/31/2023	$100,000	98.75	-$1,250
December 31, 2019	2.25%	2.25%	$2,250	12/31/2023	$100,000	102.29	$2,289
December 31, 2020	2.25%	2.25%	$2,250	12/31/2023	$100,000	106.23	$6,234
December 31, 2021	2.25%	2.25%	$2,250	12/31/2023	$100,000	103.00	$3,004
December 31, 2022	2.25%	2.25%	$2,250	12/31/2023	$100,000	97.57	-$2,430
December 31, 2023	**2.25%**	**2.25%**	**$2,250**	**12/31/2023**	**$100,000**	**100.00**	**$0**

Sources: Bloomberg LP, Raymond James

**Barring a default or other extraordinary circumstances.*

YIELDS TO SATISFY THE FIXED INCOME PALATE

The expression T.I.N.A. pops up in the financial world. It stands for ***T**here **I**s **N**o **A**lternative.* In the fixed income world, there really is no alternative for individual bonds, largely because of one important attribute – their final maturity. A final maturity enables an investor to hold a bond to maturity and therefore know exactly what benefits will play out from the first day to the last day of holding it. Don't underestimate the last day or maturity. Getting your capital investment back is after all, an expectation not always achieved, especially in riskier sectors. Knowing the date of return of face value as well as the exact cash flow and income earned is an exercise that generates confidence while being one of the best methods of preserving your wealth.

So what is the hype about? Great question because individual bonds can give an investor calmness and preserve wealth in any environment. Today's extraordinary distinction is that while accomplishing this

source: Bloomberg LP

mission, it can be done with the added benefit of providing meaningful income. For example, the 10-year Treasury bond has not had yields like today for over 16 years.

Today's opportunity allows fixed income investors to create high-quality investment-grade laddered portfolios at gratifying income levels. The difficulty in prognosticating interest rate direction accelerates the further you get into the future. Laddered maturities help mitigate interest rate risk by spreading maturities over wide ranges of maturities. However, there are compelling arguments that suggest interest rates could be lower in the next 12 to 24 months. This edition's *Putting Some Numbers on Reinvestment Risk* helps clarify the strategy of adding as much duration as one's risk profile permits in today's strategic planning.

These charts present a wide variety of laddered strategies. On the next page, the top chart segments various laddered corporate portfolios while the other chart highlights municipal portfolios. Keeping a flexible view of investment type may improve the ability to maximize return. For instance, investors in the highest tax bracket can optimize after-tax benefits by investing in municipal bonds. The higher one's tax bracket, the greater the benefit of tax-exempt income. For investors located in states with high state taxes, this tax-exempt benefit is amplified. Since the municipal yield curve remains upward-sloping through 30 years, investors earn higher yields for taking on more duration.

For investors in the lower federal tax bracket, after-tax benefits improve with taxable corporate yields. In other words, even after paying taxes, more income is acquired. Longer term corporate laddered portfolios offer two additional benefits. First is a little more income. The second value is call protection. Unlike municipal structures which almost always hold 10-year or less call features, corporate bond calls are typically within 6 months of maturity. The investment remains locked into higher yields for longer.

>BBB	1-10 Year Corporate	6-15 Year Corporate	11-20 Year Corporate	1-20 Year Corporate
Coupon	4.61	5.22	5.82	5.21
Maturity	5.1	10.3	15.0	10.1
Duration	4.1	7.0	9.0	6.6
Price	93.5	93.3	92.9	93.2
Yield	6.16	6.34	6.53	6.35

>A1 National	1-10 Year Municipal	11-20 Year Municipal	21-30 Year Municipal	1-30 Year Municipal
Coupon	4.68	4.10	4.61	4.46
Maturity	5.3	15.3	25.2	15.1
Duration	3.9	9.9	10.1	7.9
Price	102.2	97.1	98.3	99.2
37% TEY YTW	6.16	6.79	7.27	6.73
37% TEY YTM	6.30	6.87	7.48	6.87
32% TEY YTW	5.70	6.31	6.74	6.24
32% TEY YTM	5.84	6.38	6.93	6.37
24% TEY YTW	5.10	5.65	6.04	5.59
24% TEY YTM	5.22	5.71	6.20	5.71

Portfolios for illustrative purposes only, as of 11/8/2023.
Sources: TradeWeb, Raymond James

To frame the opportunity at hand, keep in mind that investors often reach for riskier assets to grow wealth. The S&P 500 can represent such a growth asset. The average annual total return of the S&P 500 index since the turn of the century (January 2000 or nearly 23 years) is 6.66%. Many of the more conservatively laddered portfolios in the charts above approach growth-like returns without the shared volatility and uncertainty associated with many other asset classes.

The window is open and opportunities are plentiful.

NAVIGATING FIXED INCOME JARGON

Fixed income terms are often intermingled with each other but in reality have very different financial meanings. We look to clarify three of the most often confused word groups.

CASH FLOW VS YIELD

Cash flow is derived from a bond's coupon times its face value. If a bond's yield is 5% and the coupon is 5%, yield and cash flow are the same. When a coupon (6%) is higher than a bond's yield (5%), the bond will trade at a premium. Part of the cash flow (6%) on a premium coupon represents yield (5% income) and part of the cash flow results from premium dollars paid. It is important to realize that all invested dollars are working for the investor. An investor is not penalized by paying a premium, it changes the way an investment's income and premium paid are returned – more cash flow in the form of a higher coupon.

A bond's yield to maturity represents the expected return from future cash flows (coupon payments + principal value at maturity).

> *"Fixed income terms are often intermingled with each other but in reality have very different financial meanings."*

DURATION VS MATURITY

Maturity is the specific date when a bond is scheduled to pay a bondholder the face value of their holding.

Duration is the depth of a bond's price sensitivity to interest rate changes. It is not expressed in years which is a time measurement. Duration is quoted as a percent change in price for each given percent change in interest rates. For example, if a bond has a duration of 4, and interest rates move 1%, a bond's price will move approximately 4%. Since price and yield have an inverse relationship, if rates move higher by 1%, the bond's price will move approximately 4% lower. Conversely, if rates fall by 1%, the bond's price will move approximately 4% higher.

"LOSSES" ON STATEMENT

Fixed income, as implied by its name, delivers fixed or known results under ordinary occurrences. Once purchased and barring an outright default, an individual bond held to maturity will provide its designated cash flow and income throughout the holding period as well as return of its face value at maturity, regardless of changing interest rates, market price, demand, worldly events or any other extraordinary happening. Even though these benefits are locked in, monthly statements will likely reflect profits or losses on bond holdings. This is because interest rates are constantly changing and therefore so are market prices. Statement losses (or gains) have no effect on bonds held to maturity and do not alter the cash flow or income being earned.

WEIGHING IN ON BOND SWAPS

Three years ago, yields were at historic lows providing the opportunity to take advantage of higher sell prices (inverse relationship between price and yield). Investors reinvested into bonds with improved credit quality and extended maturities which enabled them to maintain cash flow and income. Roughly one year ago, interest rates reversed and began to climb, rising over 200 basis points by September 2022. This market move created unrealized losses on holdings as market values of these holdings dropped.

Timing allowed 4th quarter 2022 tax loss swaps. These swaps harvested losses to offset gains. But harvesting those tax losses is typically just one part of an investment decision. Deciding how to reposition that capital going forward involves more detailed strategic planning.

WHEN TO CONSIDER A SWAP

A bond swap is when an investor chooses to sell one bond and subsequently purchase another bond with the proceeds from the sale to take advantage of the current market environment. Investors may choose to swap a bond for a wide variety of reasons including:

- Anticipation of a change in interest rates
- Extend or shorten maturity
- Alter call protection
- Capture a premium
- Alter credit quality or change industries
- Lower taxes

TIME FOR A BOND SWAP?

The versatility of bond swap methods provides ample opportunities for investors to improve their bond portfolios (credit quality, sector, yield) or to opportunistically position for an anticipated change in market conditions (modify extension, duration, call protection, tax-swaps). Professional advice and, in many cases, professional management are key elements of successful financial planning. Financial Advisors assist investors in creating diversified fixed income portfolios designed to perform well in unpredictable market environments while addressing the investors' specific objectives for level of income and principal preservation. As investors reevaluate their bond portfolios, they should run through a brief list of questions to help determine if it is the right time to consider a bond swap.

- Is the investor trying to capture a gain or realize a tax loss?
- Would the investor like to improve the credit quality of your portfolio?
- Does the investor wish to increase yield or income?
- Would the investor like to have more call protection?
- Has a tax status changed?
- What is the current tax bracket?
- What are the general investment parameters, and have they changed?

Implementing a swap is not always a clear solution, there is almost always a "give up" so investors need to determine their ultimate goal, and then prioritize needs based on the potential outcome. There are many types of swaps investors can deploy based on individual circumstances. Here are some of the more common swaps.

- **Extension Swaps:** liquidating money market funds or selling shorter maturities to purchase longer-dated securities with longer call dates. Why would an investor want to do this? The investor believes interest rates will be moving lower and wants to avoid reinvestment risk on the shorter maturities and lock in cash flow for longer.

- **Credit Swaps:** liquidating riskier investments and purchasing improved credits. Why would an investor want to do this? To improve the portfolio's credit quality and avoid any future negative surprises.

- **Tax Loss Swaps:** liquidating positions with unrealized losses to capture those losses. Why would an investor want to do this? To offset other gains or carry forward. Often investors will purchase longer maturities to not have to reduce par value or cash flow. If long-term securities have losses, replacement is difficult without adding cash to maintain par value. Note: Short vs. long-term losses receive different tax treatment for tax purposes.

- **Change in Tax-Bracket:** liquidating one asset class for another depending on an investor’s current Federal tax bracket. Why would an investor want to do this? If an investor resides in a higher Federal tax bracket they may want to swap out of taxable securities and reposition into tax-exempt securities or vice versa.

- **Geographic Swap:** liquidating some or all your securities because you relocated to another state. Why would an investor want to do this? Depending on where an investor relocates -- it may be tax-efficient to purchase in-state bonds. If an investor was living in a high state tax state and moved to a state with no income tax, they may be able to sell their bonds at a premium and replace state-specific issues with national issues.

The article is based on a Municipal Bond Investor Weekly commentary written by Noreen McClure on September 18, 2023. Raymond James is not a tax advisor and does not give tax advice. Please consult a tax professional prior to making any investment decisions.

KNOW WHAT YOU CAN OWN

Most individual bonds provide investors with a few prominent features that are difficult to find in other product types, most notably: known cash flow for the life of the security, known income (yield) at the time of purchase, and a known date when the principal will be returned. While most individual bonds provide these benefits to investors, there are many types of individual bonds, each having different features and applications within a portfolio. As an investor, sometimes it's difficult to know which product is most appropriate for a particular situation. Below are listed attributes that may illustrate how various products might work within a portfolio. Identify acceptable risk factors.

- ✓ Define desired income.
- ✓ Create required cash flow.
- ✓ Identify the requisite redemption period.
- ✓ Create needed liquidity.
- ✓ Isolate personal biases.
- ✓ Use appropriate asset mix.
- ✓ Diversify.
- ✓ Rebalance when applicable.

	PRODUCT ATTRIBUTES	HOW DOES THIS FIT?	HOW DOES THIS FIT?
TREASURY	Minimal credit risk. State and local tax exempt.	Can I benefit from the state tax exemption? Am I seeking safety and liquidity over maximizing yield?	Although credit risk is minimal, market risk increases with lengthening maturity.
CERTIFICATES OF DEPOSIT BROKERED	FDIC insured. Ability to diversify with multiple issuers.	Do I need higher safety of principal? Typically more attractive yield versus Treasuries.	$250,000 per issuer per tax ID maximum size for insurance. Sales prior to maturity subject to interest rate risk and liquidity risk.
MUNICIPAL TAX-EXEMPT	Tax exempt income with favorable long term credit standing.	The higher the tax bracket, the greater the tax benefit. The high credit quality is often viewed favorably.	Diversification can be attainable yet the liquidity is lesser versus other alternatives due to limited issue sizes. Subject to credit and interest rate risk.
MUNICIPAL TAXABLE	High quality, taxable alternative.	High credit quality alternative taxable investment. Investors in a lower tax bracket not benefitting from tax-exemption but still seeking the high quality and diversification offered by municipal bonds.	Diversification can be attainable yet the liquidity is lesser versus other alternatives due to limited issue sizes. Subject to credit and interest rate risk.
INVESTMENT GRADE CORPORATES	High quality, relatively good liquidity and competitive yields.	The breadth of the corporate market can allow for extensive diversification from credit ratings to multiple sectors. Generally liquid. Flexibility to create desired cash flow and income levels.	Wide range of issuers with various degrees of credit risk. Credit risks can fluctuate during holding period although this will not alter designated cash flow, income or redemption periods.
PREFERRED SECURITIES	Appeal to investors seeking higher yields and/or high cash flow	This may benefit the portfolio as a higher yielding component with more risk versus true fixed income alternatives.	Preferred's are subordinate to debt securities but placed ahead of common stock in the corporate structure. Being perpetual or very long dated exposes them to increased price volatility. Not a hold-to-maturity alternative.

FIXED INCOME STRATEGY RESOURCES

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The Fixed Income Strategy Group provides market commentary, portfolio analysis, and strategy to Raymond James financial advisors for the benefit of their clients and prospects. We are part of the larger 14-person Fixed Income Solutions group within the Raymond James' Fixed Income Capital Markets Group's 38 fixed income locations with more than 480 fixed income professionals including trading and public finance specialists nationwide. This publication does not constitute Fixed Income research, but rather it represents commentary from a trading perspective.

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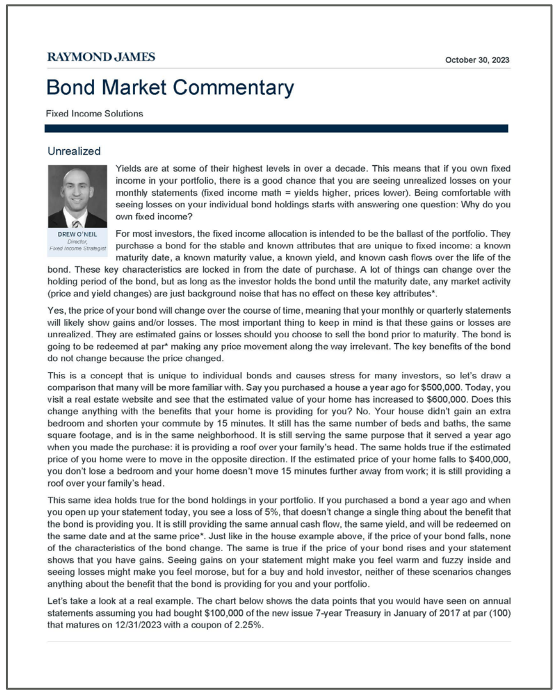
- Fixed Income Weekly Primer (PDF)
- Municipal Bond Investor Weekly (PDF)
- Weekly Interest Rate Monitor (PDF)

Investment Types/Expertise Include

- Treasuries/Agencies
- Brokered CDs
- Corporate bonds
- MBS/CMOs
- Tax-exempt municipals
- Taxable municipal bonds
- Preferred securities



RAYMOND JAMES

October 30, 2023

Bond Market Commentary

Fixed Income Solutions

Unrealized

DREW O'NEIL
Director,
Fixed Income Strategist

Yields are at some of their highest levels in over a decade. This means that if you own fixed income in your portfolio, there is a good chance that you are seeing unrealized losses on your monthly statements (fixed income math = yields higher, prices lower). Being comfortable with seeing losses on your individual bond holdings starts with answering one question: Why do you own fixed income?

For most investors, the fixed income allocation is intended to be the ballast of the portfolio. They purchase a bond for the stable and known attributes that are unique to fixed income: a known maturity date, a known maturity value, a known yield, and known cash flows over the life of the bond. These key characteristics are locked in from the date of purchase. A lot of things can change over the holding period of the bond, but as long as the investor holds the bond until the maturity date, any market activity (price and yield changes) are just background noise that has no effect on these key attributes*.

Yes, the price of your bond will change over the course of time, meaning that your monthly or quarterly statements will likely show gains and/or losses. The most important thing to keep in mind is that these gains or losses are unrealized. They are estimated gains or losses should you choose to sell the bond prior to maturity. The bond is going to be redeemed at par* making any price movement along the way irrelevant. The key benefits of the bond do not change because the price changed.

This is a concept that is unique to individual bonds and causes stress for many investors, so let's draw a comparison that many will be more familiar with. Say you purchased a house a year ago for $500,000. Today, you visit a real estate website and see that the estimated value of your home has increased to $600,000. Does this change anything with the benefits that your home is providing for you? No. Your house didn't gain an extra bedroom and shorten your commute by 15 minutes. It still has the same number of beds and baths, the same square footage, and is in the same neighborhood. It is still serving the same purpose that it served a year ago when you made the purchase: it is providing a roof over your family's head. The same holds true if the estimated price of you home were to move in the opposite direction. If the estimated price of your home falls to $400,000, you don't lose a bedroom and your home doesn't move 15 minutes further away from work; it is still providing a roof over your family's head.

This same idea holds true for the bond holdings in your portfolio. If you purchased a bond a year ago and when you open up your statement today, you see a loss of 5%, that doesn't change a single thing about the benefit that the bond is providing you. It is still providing the same annual cash flow, the same yield, and will be redeemed on the same date and at the same price*. Just like in the house example above, if the price of your bond falls, none of the characteristics of the bond change. The same is true if the price of your bond rises and your statement shows that you have gains. Seeing gains on your statement might make you feel warm and fuzzy inside and seeing losses might make you feel morose, but for a buy and hold investor, neither of these scenarios changes anything about the benefit that the bond is providing for you and your portfolio.

Let's take a look at a real example. The chart below shows the data points that you would have seen on annual statements assuming you had bought $100,000 of the new issue 7-year Treasury in January of 2017 at par (100) that matures on 12/31/2023 with a coupon of 2.25%.

A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawl at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond.

VIX Index: financial benchmark designed to be an up-to-the-minute index estimate of the expected volatility of the S&P 500 Index, and is calculated by using the midpoint of real-time S&P Index (SPX)) option bid/ask quotes.

MOVE Index: this is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average volatilities on the CT2, CT5, CT10 and CT30. (weighted average of 1m2y, 1m5y, 1m10yand 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).

S&P Index: is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

U.S. Bloomberg Aggregate Bond Index (U.S. Corporate Investment Grade/LUACTRUU): Measures the investment grade, taxable corporate bond market. It includes USD demoninated securities publicly issued by US and non-US industrial, utility and financial issuers.

Duration is the measure of a bond's price sensitivity relative to interest rate fluctuations.

Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal. The process of rebalancing may carry tax consequences.

Rebalancing a non-retirement account could be a taxable event that may increase your tax liability.

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U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default or principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Short-term bonds with maturities of three years or less will generally have lower yields than long term bonds which are more susceptible to interest rate risk. Credit risk includes the creditworthiness of the issuer or insurer, and possible prepayments of principal and interest. Bonds may receive credit ratings from a number of agencies however, Standard & Poor's ratings range from AAA to D, with any bond with a rating BBB or higher considered to be investment grade. Individual investor's results will vary. 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.

Prior to transacting in any security, please discuss the suitability, potential returns, and associated risks of the transactions(s) with your Raymond James Financial Advisor.

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Investing involves risk and you may incur a profit or loss regardless of the strategy selected.

Bond ladders: time-honored investment technique, in which an investor blends several bonds with differing maturities, provides the benefit of blending higher long-term rates with short-term liquidity. Should interest rates remain unchanged, increase, or even decline, a laddered approach to fixed income investing may help reduce risk, improve yields, provide reinvestment flexibility, and provide shorter-term liquidity. Risks include, but are not limited to, changes in interest rates, liquidity, credit quality, volatility, and duration.

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

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