Fixed Income Weekly Primer

Fixed Income Solutions

Bonds rallied last week taking yields sharply lower. The FOMC release on Wednesday and Chair Jerome Powell's press conference that followed sparked the rally. The FOMC left the Fed Funds rate unchanged, as expected, but forward-looking projections and statements were interpreted as being much more dovish than markets had expected the tone to be. The Dot Plot showed that three 25 basis point cuts are expected by the Committee in 2024 (75 basis points in total cuts) followed by additional cuts in 2025 (median estimate for Fed Funds at the end of 2025 is 3.6%). Yields dropped immediately following Wednesday's meeting and then continued to edge lower through Friday's close. The Treasury curve finished 18 to 33 basis points lower with both the 5- and 10-year Treasuries falling below the 4.00% threshold and the 30-year closing right at 4.00%. This week, PCE (Personal Consumption Expenditures) data is released on Friday which is the FOMC's preferred measure of inflation. Year-over-year inflation is projected to fall from 3.0% to 2.8% while the core year-over-year number is expected to fall from 3.5% to 3.3%. The core number is generally viewed as a better measure of longer-term inflation trends, as it excludes the volatile food and energy segments.

Investment-grade corporate yields followed Treasuries lower finishing the week down by 18 to 39 basis points. Spreads tightened by ~5 basis points looking at 10-year BBB spreads, continuing the trend over the past few months that has seen spreads tighten by ~40 basis points. Municipal bonds rallied as well with the benchmark AAA curve dropping in yield by 19 to 20 basis points across the curve.

CD rates were mixed for the week. The number of available issuers decreased (from 65 to 63). The total number of CDs available decreased (from 141 to 137). 40 issuers listed offerings between 3-months and 1-year totaling $10mm (vs. last week's $11.25mm) and averaging a 5.296% yield-to-maturity (vs. last week's 5.292%). 60 issuers listed offerings between 3-months and 5-years totaling $15mm (vs. last week's $14.25mm) and averaging a 5.170% yield-to-maturity (vs. last week's 5.160%).

	Friday	WEEK AGO	CHANGE
Equities (Price Appreciation)			
S&P 500	4719.19	4604.37	114.82
Treasuries (YTW)			
1 yr	4.950	5.130	-0.180
5 yr	3.910	4.240	-0.330
10 yr	3.910	4.230	-0.320
30 yr	4.000	4.310	-0.310
Brokered CDs (YTW)			
3 mo	5.350	5.400	-0.050
6 mo	5.350	5.350	0.000
1 yr	5.000	5.100	-0.100
3 yr	4.150	4.650	-0.500
5 yr	3.800	4.400	-0.600

	Friday	WEEK AGO	CHANGE
Municipal (AAA) (YTW)			
1 yr	2.602	2.790	-0.189
5 yr	2.242	2.445	-0.203
10 yr	2.319	2.529	-0.209
30 yr	3.405	3.600	-0.195
Municipal (AAA) TEY @ 37%			
1 yr	4.130	4.429	-0.299
5 yr	3.559	3.881	-0.322
10 yr	3.682	4.014	-0.332
30 yr	5.405	5.715	-0.309
MBS 30-yr (Current Coupon) (YTW)			
FNMA	5.372	5.722	-0.350
GNMA	5.268	5.575	-0.308

	Friday	WEEK AGO	CHANGE
Corporate Index (A) (YTW)			
1 yr	5.288	5.467	-0.179
5 yr	4.566	4.920	-0.354
10 yr	4.821	5.188	-0.367
30 yr	4.981	5.327	-0.346
Corporate Index (BBB) (YTW)			
1 yr	5.742	5.913	-0.172
5 yr	5.101	5.472	-0.371
10 yr	5.304	5.694	-0.390
30 yr	5.359	5.711	-0.351
Other Rates			
3m LIBOR	5.626	5.628	-0.002
Fed Funds	5.310	5.310	0.000

Source: Bloomberg LP, Raymond James as of 12/18/23 *All entries are percentage (%) unless otherwise noted.*

DAY	EVENT	PERIOD	SURVEY	PRIOR
Fri	PCE Deflator YoY	Nov	2.8%	3.0%
Fri	PCE Deflator MoM	Nov	0.0%	0.0%
Fri	PCE Core Deflator YoY	Nov	3.3%	3.5%
Fri	Durable Goods Orders	Nov P	2.4%	-5.4%
Fri	UMich Sentiment	Dec F	69.4	69.4

- Bond Market Commentary
- Interest Rate Monitor
- Fixed Income Quarterly

External Links:

- FINRA
- MSRB

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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.

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