

Fixed Income Quarterly

Market Perspectives from Fixed Income Solutions

Forward Discipline for Building a Resilient Portfolio

Entering 2026, investors are navigating a market shaped by two competing forces: elevated interest rates that finally reward savers and bondholders, and a prolonged run in risk assets that can tempt portfolios out of balance. This quarter's *Fixed Income Quarterly* is designed to put the current environment into context, starting with the Federal Reserve's mandate and the policy dynamics that influence inflation, growth, employment, and overall market stability.

A central theme this quarter is behavioral risk, specifically, recency bias. Strong multi-year gains in equities and housing can make recent performance feel "inevitable," even though history has repeatedly shown that long stretches of disappointing returns can follow periods of optimism. The objective here is not to make a market call, but to reinforce disciplined portfolio management: rebalancing, helping to protect accumulated gains, and maintaining a strategic mix between growth assets and wealth-preservation assets.

On the fixed income side, today's yields offer practical opportunities to lock in income and improve portfolio resilience. We review what's working across taxable and tax-exempt markets, including the current state of corporate spreads and how parts of the municipal curve can offer exceptional value while other parts remain less compelling on an after-tax basis for many investors.

Finally, we take a closer look at municipal tax strategies (including state tax-rate changes) and municipal housing bonds, where structure and call/prepayment features can materially affect outcomes. The goal throughout is straightforward: build durable, cash-flow-aware fixed income allocations that support long-term plans, regardless of the next headline.

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THE FEDERAL RESERVE

The Federal Reserve is the U.S. central bank, mandated to maintain stable prices and maximize employment. It is comprised of seven board members appointed by the U.S. President and confirmed by the Senate. There are also 12 regional Federal Reserve banks located in major cities. The Federal Open Market Committee (FOMC), which includes the board members and a rotating set of regional bank presidents, sets interest rate policy. These policies directly or indirectly influence inflation, economic growth, employment levels, mortgage and credit card rates, and the general financial market stability. There will be changes to the membership this year, which may affect the composition and the important monetary policy they set.

THE FED DIRECTLY OR INDIRECTLY INFLUENCES

- Inflation
- Economic growth
- Employment levels
- Mortgage and credit card rates
- General financial market stability

President Trump will replace Fed Chair Jerome Powell, as his term expires in May 2026. He has already appointed Kevin Warsh, who is awaiting Senate approval. In addition, Fed Governor Stephen Miran's term expired in January 2026, and Atlanta Fed President Raphael Bostic's term ends February 2026. President Trump will also have an opportunity to appoint Miran's replacement.

Fed Governor Lisa Cook is awaiting a Supreme Court ruling on mortgage fraud allegations that may determine her fate. These allegations have not resulted in any formal legal action or formal charges. Why is this important? Critics consider the claim to be political, not legal. The political pressure highlights an important characteristic of the separation of our government and the Federal Reserve. The Federal Reserve's ability to act independently of political pressure is considered paramount by many.

Elected officials have an incentive to boost the economy, especially before an election, which can be influenced by lower interest rates. This could cause inflation and/or volatility. There are economic circumstances in which unpopular decisions, such as raising interest rates, are necessary to stabilize prices. Monetary policy, much like many other economic influences, typically works gradually. The Fed's goal is to ensure decisions focus on the future, not on immediate political goals. The credibility earned through acting

independently ultimately helps to keep borrowing costs lower and inflation expectations appropriately aligned. Decisions are made based on a 12 member vote. No single group or president controls the Fed, allowing it to focus on the future economy, stable pricing, steady employment, and, most importantly, a trustworthy monetary system.



Hawks

[Waller \(Board\)[^]](#)
[Bowman \(Board\)[^]](#)
[Hammack \(Cleveland\)](#)
[Logan \(Dallas\)](#)
[Bostic \(Atlanta\)](#)

Reduced government spending;
 low inflation; higher interest rates

Neutral

[Jefferson \(Board\)^{*}](#)
[Powell \(Chair\)^{**}](#)
[Williams \(Vice Chair\)](#)
[Kashkari \(Minneapolis\)](#)
[Barr \(Board\)^{*}](#)
[Barkin \(Richmond\)](#)

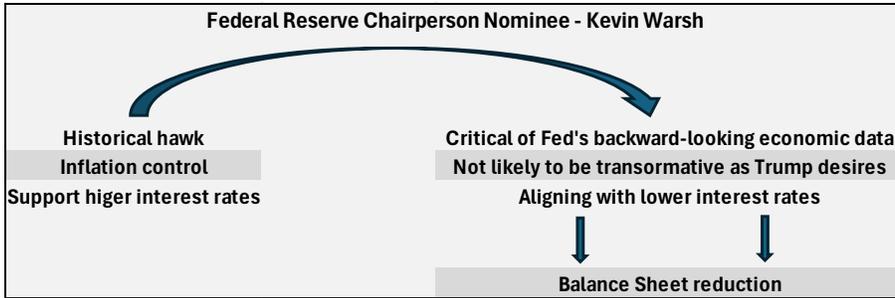
^{*}Biden [^]Trump appointed; Alternate Members; Underlined term ends in February 2026



Doves

[Cook \(Board\)^{*}](#)
[Paulson \(Philadelphia\)](#)
[Miran \(Board\)[^]](#)
[Goolsbee \(Chicago\)](#)
[Daly \(San Francisco\)](#)

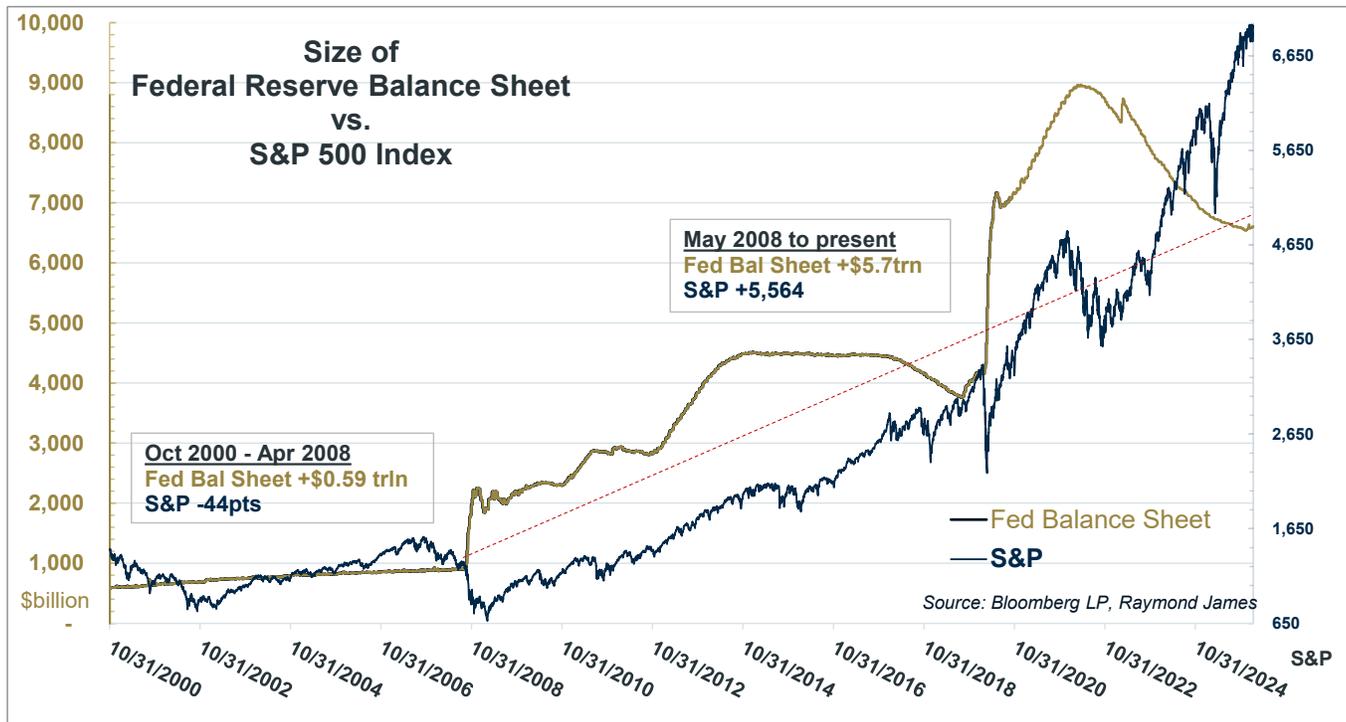
Higher government spending;
 low unemployment/lower interest rates; negotiation



The chart attempts to classify each member as a “dove”, “neutral”, or a “hawk”. This is subjective. The labeling is subjective, and many Fed members’ views evolve based on the issue rather than a chosen descriptive category. How refreshing. In an era when

it seems politicians will only vote along party lines, it is difficult to label Federal Reserve members, as they are influenced by their views rather than a predetermined ideology. The newly appointed (yet to be approved) Fed Chair may be a welcome independent influence for monetary policy.

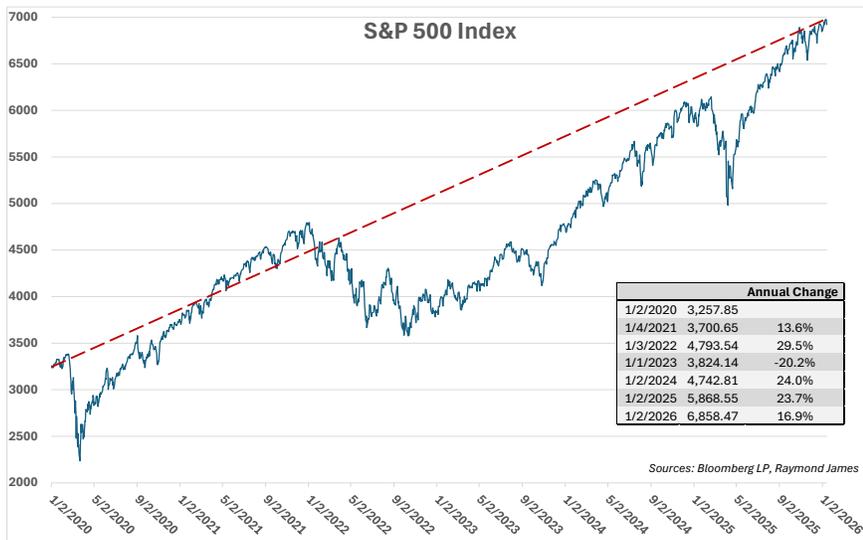
The Federal Reserve Chairperson nominee, Kevin Warsh, has been labelled a historic “hawk” that focused on inflation control. His recent criticism of the Fed and its backward-looking approach to economic data appears to be something of a historical contradiction. He has recently expressed the view that the U.S. economy may benefit from lower interest rates, with the caveat that this can be achieved with a reduced Fed Balance sheet. Warsh views that the inflated balance sheet has lopsidedly benefited Wall Street through easier borrowing, while Main Street has struggled with tighter borrowing. Lower interest rates may improve liquidity and help revive the housing market. The complexity is that a smaller balance sheet may put upward pressure on longer-term interest rates.



REGENCY BIAS

Merriam-Webster defines recency bias as “a cognitive bias in which people overemphasize recent events, information, or experiences over earlier, more comprehensive data. This often leads to irrational decision-making, as recent events are more easily recalled in short-term memory.” It goes on to put it in context, “...as it is frequently seen in performance evaluations, sports analysis, and investing.” How apropos, as the stock market continues its’ amazing bull run.

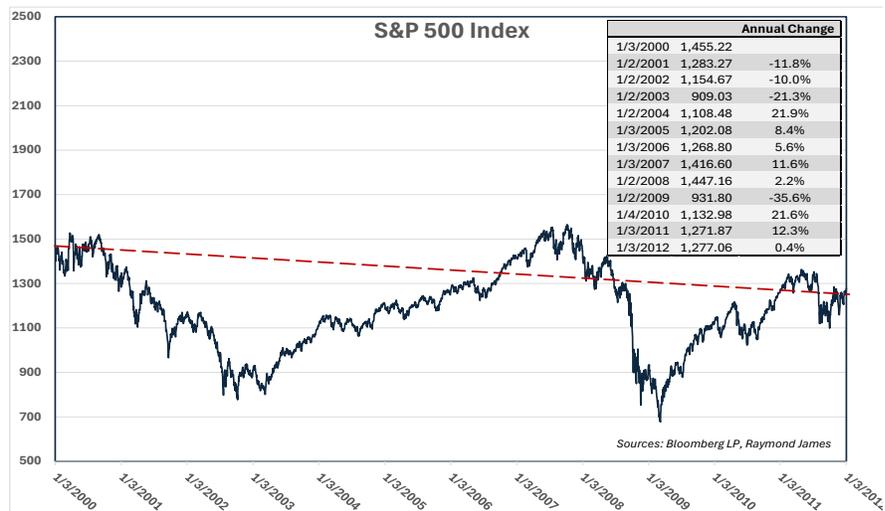
The financial markets have delivered investors with plenty of opportunities over the last three years. The S&P 500 Index has generated double-digit returns in six of the past seven years. The index is up ~82% from 2021 to January 2026. The average family’s largest asset and investment is their house. Housing prices have also had a strong run. The Federal Housing Finance Agency reports that residential housing prices are at a record level, up ~31% from 2021 through 2025. The Philadelphia Stock Exchange’s Gold and Silver Index is up ~184%, while average hourly earnings are up 7.4% over the same period. The bottom line is that the last several years have been lucrative for those holding assets or investing money.



Thus, the discussion of recency bias. As noted, six of the last seven years have shown double-digit returns for the S&P 500 Index. Combine housing prices, stable employment and wages, and other commodity gains, and the average household is *experiencing*, and more to the point, *feeling* the positive wealth effect. Viewing the graph of the S&P 500 Index alone can give the sense that equity investments are headed in one direction. Participation seems mandatory so as not to forgo

“certain” gain. We are not suggesting ignoring momentum or the potential of growth assets. However, comprehensive data spanning earlier periods can serve as a reminder of market realities.

The second graph depicts the Lost Decade, a period spanning from 2000 to 2009, during which the S&P 500 Index posted negative returns. This, by no means, suggests that the current bull run is about to end or continue. Simply put, we do not know. What we do know, however, is that many investors have experienced a profitable run that is worthy of preserving and not lost to over-aggressive decision-making driven by recency bias.



Maintaining a strategic balance between growth assets (such as equities) and wealth-preservation assets (such as bonds) is part of a long-term, comprehensive investment portfolio plan. This is not about exiting equities but rather about harvesting accumulated gains and preserving what has already been earned. Investors who have experienced periods like the Lost Decade, as graphed on the previous page, may understand the vulnerability to emotional investing. Imagine a scenario where momentum is strong and over-weighting balances provides a benefit that can't be ignored. A market change may even be seen as an opportunity to push beyond a stated strategy or be "all in". If a market change then persists as long as it did from 2000 to 2009, investors may experience that "oh no..." moment at any time. Every investor's threshold for loss and panic is different. Nevertheless, the degree of damage may vary, but the investment-behavior modification is often the same. To stop the trend, conservative measures are often employed. Investors may reach for ultra-conservative credits and/or unsuitable investments at the wrong time. It may even be a time when re-employing growth assets is a superior strategy.



What we do know is that today's bond yields can not only help preserve wealth but also help maintain dependable income. The strategic time to prepare for off-market opportunities is during good times – like now. This is not about making a market call. Quite the opposite. This is about rebalancing as a risk-management tool. The past several years have provided many investors with the opportunity to acquire wealth. Fixed income offers dual

benefits in today's economic environment. One is to preserve that wealth and shelter it in less risky, wealth preserving bonds. The other benefit is that our elevated interest rate environment permits valuable income opportunities.

KEY TAKEAWAYS

- Recency bias is a natural cognitive investor emotion – it can be logically challenged
- Rebalancing is part of a strategic plan to help stay consistent with allocation goals – this is not about timing the market
- Many investors have an opportunity to lock into gains and avoid volatility, which could disappear if the market were to experience a dramatic shift
- Individual bonds do not rely upon future prognostications – bonds can provide known cash flows and known maturity dates when principal is returned... regardless of interest rate volatility and future uncertainties

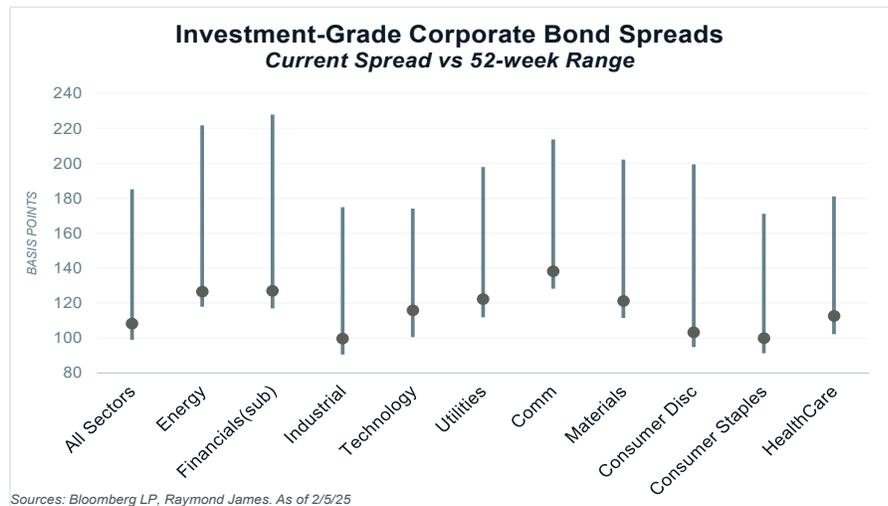
CORPORATE SPREADS

What is it? Corporate spread refers to the additional yield that a corporate bond offers over a Treasury security of the same maturity. For example, if a corporate bond is yielding 5.00% and a corresponding Treasury is yielding 4.00%, the corporate bond is trading at a spread of 100 basis points (100 basis points = 1%). In conversational terms, the spread represents the additional yield an investor can earn in return for taking on the credit risk of a corporate bond relative to a US Treasury - more risk, more reward. All else equal, the wider the spread, the greater the market's perceived risk.

What is the current state of corporate spreads? Corporate spreads are at historically narrow levels, meaning the additional yield from purchasing a corporate bond rather than a Treasury is relatively narrow. Narrow spreads can signal a few things, but at a high level, they indicate that the market perceives the economy as being in a good place and, by extension, that the credit risk of lending to corporations is relatively low. It can also signal strong demand for the product, as higher demand can drive prices up and yields/spreads lower. The chart shows current spread levels across the investment-grade corporate landscape (*solid gray dots*) compared to the range over the past year (*vertical blue lines*). Notably, spreads across all sectors are near their narrowest levels over this timeframe. If we were to cast a wider net and look back over the past 10 years, the story would be similar: spreads are near their narrowest levels of the past decade and ~50 basis points below the average over that period.

What does the current state of corporate spreads mean for investors?

The current environment can be interpreted in several ways, depending on the investor's particulars. Treasury yields are at attractive levels relative to most of the past 17+ years, meaning that while spreads are narrow, the absolute yields investors can earn remain relatively high. For buy-and-hold investors, the yield earned is typically the long-term goal. If an

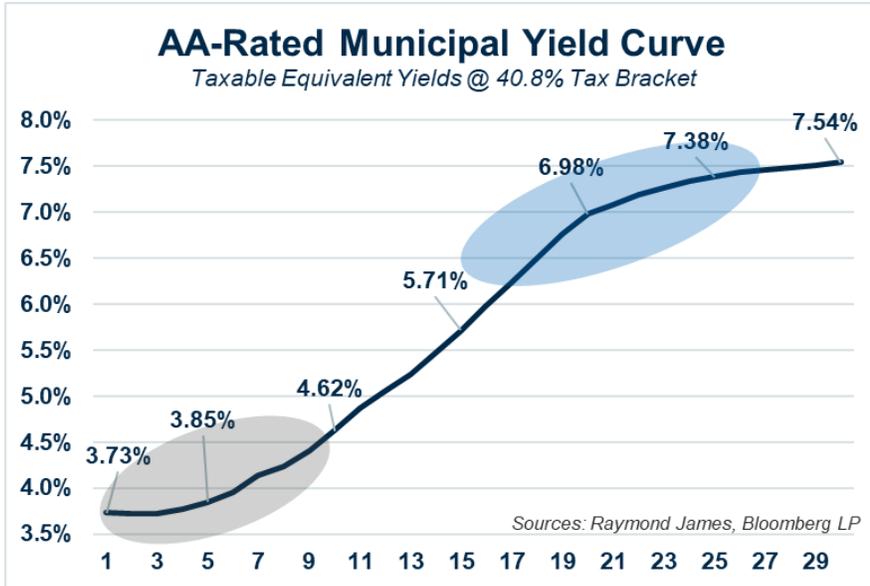


investor is buying a bond that yields 5%, they may be indifferent about how a 5% yield is achieved - whether it is a result of the Treasury yield being 2.50% and the spread being 250 basis points, or if the Treasury is yielding 4% and the spread is 100 basis points.

Investors most concerned with spread levels and potential spread movement tend to be those actively trading their portfolios, whether through actively managed packaged products or portfolios of individual bonds. Unlike buy-and-hold strategies, which many investors use as a portfolio cornerstone, active management seeks to capitalize on short-term price movements. Accurately capturing these price changes requires correctly forecasting both benchmark Treasury yield movements and credit spread changes, making spread behavior highly relevant for active managers. For example, if benchmark yields fall by 15 basis points while spreads widen by 15 basis points, the bond's yield and price remain unchanged. With spreads currently at historically narrow levels, the scope for further compression appears limited, creating an ongoing headwind for active management.

A TALE OF TWO YIELD CURVES

The municipal curve offers good value right now. The municipal curve offers minimal value right now. Both statements are currently true. How so? The yield curve below should shine some light on the current state of the municipal bond market.



There are a few key investor takeaways from this chart. First, the municipal curve is fairly steep. When a yield curve is steep, it means that investors are rewarded for holding longer-maturity bonds. The steeper the curve, the greater the yield an investor gains by taking on the additional risk, primarily interest-rate risk, that comes with buying a longer-maturity bond. The steeper the curve, the more motivated an investor is to extend out. To provide some context on the curve's steepness, the AAA curve's slope from 1 to 30 years is

~200 basis points, which is 65 basis points above the average over the past decade. As recently as mid-2024, the slope was around 50 basis points, meaning the curve is currently around four times as steep as it was just a year and a half ago.

The next two takeaways are closely related to the curve's steepness. The first is that the long end of the curve is offering investors yields that are elevated by historical standards. A steep curve means that as an investor moves out into longer-maturity bonds, they are picking up more incremental yield. High-quality, AA-rated portfolios positioned on the 15+ year part of the curve can provide investors in the top federal income tax bracket (37%) with taxable equivalent yields (TEYs) of over 7%. For investors in higher income-tax states, the TEYs can approach and even exceed 8%. Yields at these levels have rarely been available over the past several decades. While the long end of the curve offers very good value, the steep curve means the short end is at the bottom of the slope and offers relatively little value. With yields in the 2% to 3% range and TEYs in the low-to-mid 4% range, many investors, especially those in lower or middle-range federal tax brackets, may benefit on an after-tax basis from taxable products like corporate bonds, brokered CDs, or Treasuries.

Investors seeking a long-term financial plan that locks in yield can meet their goal by extending to longer municipal maturities. No one knows what tomorrow will hold, but the opportunity available today may warrant consideration.

IS THERE A PLACE FOR HOUSING BONDS IN YOUR PORTFOLIO?

When investors think about municipal bonds, what often comes to mind are “bread and butter” bonds of the municipal market: general obligation bonds and revenue bonds. In each of those respective categories, K-12 school districts and water/sewer bonds are likely the most familiar.

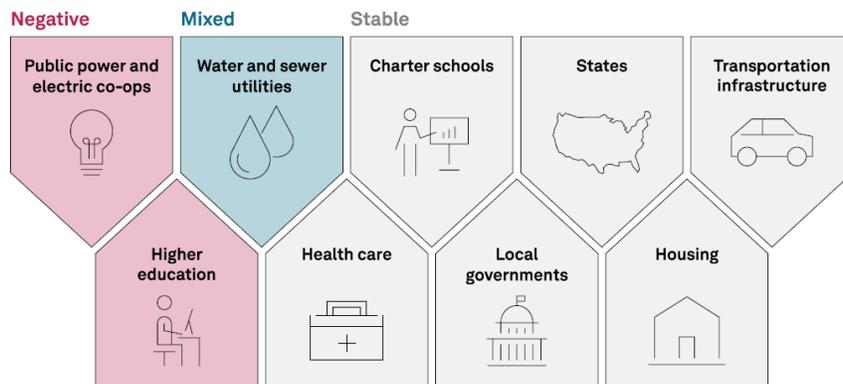
The municipal bond market offers a much wider range of investment options. Municipal analysts refer to them as credit sectors. In addition to the above-mentioned K-12 schools and water/sewer utility sectors, other sectors include transportation bonds (roads, airports, ports), higher education, and health care, among others.

Earlier this year, Standard & Poor’s issued a report with its outlook for the municipal market and key sectors. Here is their summary:

KEY TAKEAWAYS

- Most U.S. public finance (USPF) sectors will remain resilient in 2026, underscored by strong reserves and capable management teams that support creditworthiness despite lower economic growth (compared with 2025), leading to stagnant revenue trends and higher expenditures.
- Vulnerable sectors – higher education, public power, small water utilities, and K-12 public schools – could experience further deterioration in credit quality from the ongoing politicization of federal support, policy uncertainty, affordability pressures, and evolving demographics.

U.S. public finance sector views for 2026



Mixed = some negative, some positive. Source: S&P Global Ratings.
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Among the stable sectors, one attractive sector may not be on many investors’ radars: **Housing bonds**. The most active issuers in this sector are state housing finance agencies (HFAs). In 2025, more than \$35 billion in bonds were issued by state and local HFAs, about 6% of the nearly \$580 billion in municipal new issues (according to The Bond Buyer).

What are state Housing Finance Agencies?

State Housing Finance Agencies (HFAs) are state-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in characteristics such as their relationship to state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state's governor. They administer a wide range of affordable housing and community development programs. (Source: National Association of State HFAs.) Market specialists anticipate that 2026 will be another robust year of issuance for single-family housing bonds.

The HFAs provide attractive financing opportunities for both single-family and multi-family properties. For single-family homeownership, lower-income buyers can access more affordable mortgages: typically below market rates, access downpayment assistance, affordable home construction, and home improvements.

The HFAs issue bonds and use the bond proceeds to issue mortgages to eligible purchasers. The payments from loans, along with other funds available to the HFA are typically pledged to bondholders for repayment. Most single-family-backed issues receive very high credit ratings, generally at the AA and AAA levels, in part because some or all of the underlying mortgages may also be backed by federal housing agencies (Fannie Mae, Freddie Mac, or Ginnie Mae). Some individual mortgages may benefit from private mortgage insurance. Candidly, the credit quality is very strong.

New single-family programs issue bonds at par. The reason bonds are issued at par is that HFA has the right (but not the obligation) to call bonds early, even before a stated call date, through a special prepayment redemption provision that allows holders to prepay their loans. The possibility of prepayment creates both costs and benefits for investors. The benefit is that HFA must pay a "premium" interest rate on the bonds to have the right to call them early. From the investor's standpoint, the cost is that the premium interest rate could be "called away" well before the stated maturity or regular call date due to the prepayments. If market interest rates decline after the bonds (and mortgages) are issued, the risk of prepayments increases.

How large is the premium? Recently, a state HFA issued Aaa/AAA bonds with maturities ranging from 1 to 30 years. The 20-year bond due in 2046 offered a yield of 4.60%. That was 63 basis points above the AAA municipal yield curve. For an investor in the top federal tax bracket (37%) and also subject to the net investment income tax, **that 4.60% tax-exempt yield equates to a taxable-equivalent yield of more than 7.75%**. A strong return for an Aaa / AAA-rated bond! (For reference, when the housing bonds were issued, the taxable yield on the 20 year US Treasury was ~4.75%.) That's the yield opportunity in State HFA single-family housing bonds.

MUNICIPAL BOND 2026 STATE TAX RATE UPDATE

The past quarter has seen changes across the entire municipal bond yield curve. However, the municipal rate changes are not parallel for all maturities. The table below shows the three-month change in the Bloomberg AAA Municipal Bond Index. While maturities less than 20 years have seen rates fall, especially at the shortest part of the curve, longer-dated bonds continue to offer rates north of 4%. Those levels allow top investors subject to the highest Federal tax rates to achieve high single-digit taxable equivalent yields in A-rated or better credits.

The opportunity to lock in historically high taxable equivalent yields (TEY) may be greater for investors residing in

states with high income taxes. Investors in the highest Federal tax brackets, for example New York, can gain more than 100 basis points of TEY by choosing an in-state alternative over an out-of-state one. The additional tax break may benefit an in-state resident even if the in-state bond has a lower nominal yield.

Bloomberg AAA Municipal Bond Index

	11/3/2025		2/2/2026		Change	
	YTW	TEY*	YTW	TEY*	YTW	TEY*
1 Year	2.52%	4.26%	2.23%	3.76%	-0.29%	-0.50%
3 Year	2.37%	4.01%	2.17%	3.67%	-0.20%	-0.34%
5 Year	2.37%	4.01%	2.22%	3.74%	-0.16%	-0.27%
10 Year	2.72%	4.59%	2.60%	4.40%	-0.11%	-0.19%
15 Year	3.29%	5.55%	3.17%	5.36%	-0.12%	-0.19%
20 Year	3.81%	6.44%	3.91%	6.60%	0.10%	0.17%
30 Year	4.07%	6.87%	4.16%	7.02%	0.09%	0.15%

*Assumes a federal income tax rate of 37%, a medicare tax rate of 3.8%, and state income tax rates of 0%.

Source: Bloomberg; Raymond James

TEY* Comparison

	FL			VA	NY
	Base Yield	Resident	Resident	Resident	Resident
NY Muni	4.00%	6.76%	6.95%	8.28%	8.28%
VA Muni	4.00%	6.76%	7.48%	7.18%	7.18%
FL Muni	4.00%	6.76%	6.95%	7.18%	7.18%

*Assumes a federal income tax rate of 37%, a medicare tax rate of 3.8%, and state income tax rates of Florida 0%, Virginia 5.75%, New York 10.9%. TEY Calculated using 5% coupon bonds.

Source: Tradeweb Markets LLC, Raymond James

While the tax benefit between in-state and out-of-state bonds may be wide for the states levying high income tax rates, the gap narrows for investors residing in states with comparatively lower income tax rates. For example, a Mississippi investor, whose state income tax is only 4%, may benefit from purchasing an out-of-state bond, since the state tax on the bond would be relatively small. This may allow Mississippi investors to choose from a larger inventory of bonds, since, according to Bloomberg, the state has issued less than 1% of the outstanding tax-exempt bonds. This selection increases

the likelihood of finding an out-of-state bond with a particular structure that complements the investor's portfolio, possibly with a higher yield.

Being aware of one's complete tax picture can make a meaningful difference in investment performance. Consequently, changes to state income tax rates may impact an investor's decision-making. Evaluations and analysis takes into consideration individual situations and changes to the tax landscape. While the 2026 federal tax rates did not change, several state income tax rates were adjusted from their 2025 levels.

State	2025 Rate*	2026 Rate*	Change
Georgia	5.19%	5.09%	-0.10%
Indiana	3.00%	2.95%	-0.05%
Kentucky	4.00%	3.50%	-0.50%
Mississippi	4.40%	4.00%	-0.40%
Montana	5.90%	5.65%	-0.25%
Nebraska	5.20%	4.55%	-0.65%
North Carolina	4.25%	3.99%	-0.26%
Ohio	3.125%	2.75%	-0.38%
Oklahoma	4.75%	4.50%	-0.25%
Utah	4.55%	4.50%	-0.05%

Complete state listing on the next page

*The top rate is used for states with progressive rate schedules; 2026 rates are subject to change.

Source: Tax Foundation, Bloomberg, Raymond James

Raymond James is not a tax advisor and does not give tax advice. Please consult a tax professional prior to making any investment decisions.

TAX REFERENCE CHARTS

Top Income Tax Rate By State			
State	Top Rate	State	Top Rate
Alabama	5.00%	Nebraska	4.55%
Alaska	none	Nevada	none
Arizona	2.50%	New Hampshire	none
Arkansas	3.90%	New Jersey	10.75%
California	13.30%	New Mexico	5.90%
Colorado	4.40%	New York	10.90%
Connecticut	6.99%	North Carolina	3.99%
Delaware	6.60%	North Dakota	2.50%
Florida	none	Ohio	2.75%
Georgia	5.19%	Oklahoma	4.50%
Hawaii	11.00%	Oregon	9.90%
Idaho	5.30%	Pennsylvania	3.07%
Illinois	4.95%	Rhode Island	5.99%
Indiana	2.95%	South Carolina	6.00%
Iowa	3.80%	South Dakota	none
Kansas	5.58%	Tennessee	none
Kentucky	3.50%	Texas	none
Louisiana	3.00%	Utah	4.50%
Maine	7.15%	Vermont	8.75%
Maryland	6.50%	Virginia	5.75%
Massachusetts	9.00%	Washington	none
Michigan	4.25%	West Virginia	4.82%
Minnesota	9.85%	Wisconsin	7.65%
Mississippi	4.00%	Wyoming	none
Missouri	4.70%	Washington DC	10.75%
Montana	5.65%		

Source: Tax Foundation, Raymond James

Tax Rate	2026 Federal Taxable Income Brackets (Married Filing Jointly)
10%	\$0 to \$24,800
12%	\$24,801 to \$100,800
22%	\$100,801 to \$211,400
24%	\$211,401 to \$403,550
32%	\$403,551 to \$512,450
35%	\$512,451 to \$768,700
37%	\$768,701 or more
41%	Includes NIIT 3.8%

Source: IRS Publication, Raymond James

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.

- ✓ 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?	ADDITIONAL CONSIDERATIONS
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 more principal assurance? 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.
MORTGAGE-BACKED SECURITIES	High quality, taxable alternative	Can benefit by adding yield with a high quality underlying backing. Many variations provide wide scope of choices.	Works differently than securities above as principal is paid down during the holding period as opposed to in lump sum at maturity or with a call.

FIXED INCOME STRATEGY RESOURCES

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- [Fixed Income Weekly Primer](#)
- [Municipal Bond Investor Weekly](#)
- [Weekly Interest Rate Monitor](#)

INVESTMENT TYPES/EXPERTISE INCLUDE

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

RAYMOND JAMES

February 9, 2020

Bond Market Commentary

Fixed Income Solutions

PREPARING FOR THE STORM



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There are reasons people dig storm shelters in Tornado Alley, build their houses on higher ground on the coast of Florida, and at a basic level why most of us buy insurance. It is to prepare for when things do not go the way we hope or anticipate and to give us a foundation upon which to rebuild in the worst of outcomes. It is human nature that recent history starts to shape our tolerance and expectation of risk. In the case of the equity markets, things have generally been going very well since the down markets during the COVID 19 outbreaks in 2020. Since then, the equity markets have had outstanding returns, giving most of us a feeling of financial strength and security. But it is the emotional "feeling" that is often the downfall for many of us.

Fear and greed drive too many of our financial decisions. It is wired into our evolutionary DNA. When we feel wealthy and financially stable, we are more apt to take risks. In the financial markets that means we buy riskier stocks with larger perceived return potential. We tend to position more of our portfolios to the riskier side of our allocation because we "feel" more secure and recent market behavior has made us "feel" that we can tolerate more potential volatility.

Historically, we can look at how this eventually runs its course for most investors. At some point over the horizon a financial storm will start to build. Most of us will not see it coming and even if we do, we often have become so comfortable in the recent success of the markets that we ignore the signs and fail to prepare for its impact. When the market turns there's a tendency for denial that lasts for too long as portfolio values decline. We convince ourselves that it is temporary and the market will rebound shortly. When some investors finally panic and sell, they may make another bad financial decision and sell riskier assets at the bottom of the cycle. At this exact moment, rare people like Warren Buffet start to buy heavily. Often, investors then over allocate remaining investments into lower risk assets, like investment grade bonds at the moment when the masses are doing the same thing, and those assets are often priced at market cycle peaks. In summary, we let our emotions drive the ship and we "sell low" and "buy high." Exactly the opposite of what we are supposed to do.

What if we prepare for the storm? What if we acknowledge that it is a perfectly normal part of a financial cycle to have periods of growth and periods of contraction that are often caused, especially on the contraction side, by unforeseen events? What if we can create enough stability of principal and income that we are less likely to panic in the depths of the next downturn because we are confident in our ability to comfortably ride out the storm and wait for the right moment to buy at the bottom of the risk market cycle with confidence instead of selling in panic?

Most of us working in the fixed income department of Raymond James have been doing this for quite a while. It takes decades of history to have experienced, not just read about, the emotional toll a market storm can take on investors. We have seen the cycle many times before. When confidence in the markets

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. Moody's rates more than 10,000 investment-grade municipal issuers, has tracked rating changes over the past 50 years and looked at rating changes (transitions, both year-over-year and multi-year). Each year, Moody's summarizes the number of rating changes, up and down, along with the number of notches in movement.

The Personal Consumption Expenditures Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The change in the PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

The Consumer Price Index (CPI) is a price index representing a weighted average market basket of consumer goods and services purchased by households. Changes in measured CPI track changes in prices over time.

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 withdrawal 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, 1m10y and 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).

S&P 500 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.

The PHLX Gold/Silver Sector Index (XAU) is a capitalization-weighted index composed of companies involved in the gold or silver mining industry.

The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds. (Future Ticker: I00730US)

U.S. Bloomberg Aggregate Bond Index (U.S. Corporate Investment Grade/LUACTRUU): Measures the investment grade, taxable corporate bond market. It includes USD denominated 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. Rebalancing a non-retirement account could be a taxable event that may increase your tax liability.

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