Fixed Income Weekly Primer

Fixed Income Solutions

Stronger than expected economic numbers pushed yields higher across the board last week. JOLTS Job Openings came in higher than expectations on Tuesday which points to strength in the labor market. Also on Tuesday, the ISM Services Index showed both an increase from the prior month and was higher than the market anticipated, showing continued strength in the services part of the economy. And then, to cap things off, Friday's employment data beat market expectations. The Change in Nonfarm Payrolls for December was 256,000 (165,000 was expected) while the Unemployment Rate unexpectedly fell from 4.2% to 4.1%. The week's economic data added to the narrative that the economy remains strong and the FOMC will be in no hurry to continue their rate cutting cycle. According to Bloomberg calculations, markets are not expecting the FOMC to cut the Fed Funds rate again until June (and those estimates are only at ~68%). Only 25 basis points of total cuts are currently priced into the market through the end of 2025.

Treasuries sold off, taking yields higher across the curve. Short-term yields rose by 7 to 12 basis points while intermediate and long-term yields rose by 14 to 18 basis points. Notably, the 30-year yield touched 5.00% intraday on Friday morning. Since mid-September, the Fed Funds rate has been reduced by 100 basis points; over that same timeframe, Treasury yields from 5 to 30 years are higher by over 100 basis points. This has driven a sharp steepening of the yield curve, as the 10-year/3-month yield spread has moved from negative ~135 basis points to positive ~43 basis points over that timeframe, a steepening of nearly 180 basis points.

Investment-grade corporate yields moved in tandem with Treasuries as spreads were mostly unchanged last week. Both A-rated and BBB-rated yields were higher by 6 to 18 basis points from 1 to 10 years. Municipal yields moved higher as well, with larger moves on the longer part of the curve. Yields on the benchmark AAA curve were up by 6 to 12 basis points while 20 to 30 year yields rose by 23 to 25 basis points. Yields across the fixed income landscape are at some of their most attractive levels of the past 15+ years, presenting a good opportunity for fixed income investors.

	Friday	WEEK AGO	CHANGE
Equities (Price Appreciation)			
S&P 500	5827.04	5942.47	-115.43
Treasuries (YTW)			
1 yr	4.250	4.180	0.070
5 yr	4.590	4.410	0.180
10 yr	4.770	4.600	0.170
30 yr	4.960	4.820	0.140
Brokered CDs (YTW)			
3 mo	4.200	4.300	-0.100
6 mo	4.200	4.150	0.050
1 yr	4.100	4.050	0.050
3 yr	4.100	4.000	0.100
5 yr	4.000	3.950	0.050

	Friday	WEEK AGO	CHANGE
Municipal (AAA) (YTW)			
1 yr	2.783	2.916	-0.134
5 yr	2.958	2.841	0.117
10 yr	3.218	3.073	0.145
30 yr	4.038	3.789	0.250
Municipal (AAA) TEY @ 37%			
1 yr	4.417	4.629	-0.212
5 yr	4.695	4.509	0.186
10 yr	5.108	4.877	0.230
30 yr	6.410	6.014	0.396
MBS 30-yr (Current Coupon) (YTW)			
FNMA	6.052	5.888	0.164
GNMA	5.959	5.820	0.139

	Friday	WEEK AGO	CHANGE
Corporate Index (A) (YTW)			
1 yr	4.678	4.607	0.071
5 yr	5.066	4.899	0.167
10 yr	5.519	5.340	0.180
30 yr	5.870	5.726	0.143
Corporate Index (BBB) (YTW)			
1 yr	4.928	4.866	0.062
5 yr	5.359	5.183	0.176
10 yr	5.830	5.645	0.186
30 yr	6.176	6.024	0.152
Other Rates			
SOFR	4.300	4.310	-0.010
Fed Funds	4.320	4.320	0.000

Source: Bloomberg LP, Raymond James as of 01/13/25 *All entries are percentage (%) unless otherwise noted.*

DAY	EVENT	PERIOD	SURVEY	PRIOR
Tues	PPI Final Demand YoY	Dec	3.5%	3.0%
Wed	CPI YoY	Dec	2.9%	2.7%
Wed	CPI Core YoY	Dec	3.3%	3.3%
Wed	CPI Core MoM	Dec	0.2%	0.3%
Thurs	Retail Sales Advance MoM	Dec	0.6%	0.7%

Available on RaymondJames.com

- Bond Market Commentary
- Weekly Interest Rate Monitor
- Municipal Bond Investor Weekly
- Fixed Income Quarterly

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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 37% 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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