RAYMOND JAMES

SECOND QUARTER 2020

Fixed Income Quarterly

Market perspectives from Fixed Income Solutions

Rethinking Overall Portfolio Strategy with Fixed Income

Although this is our regular quarterly report, there are many special influences integrated. The history unfolding as a result of COVID-19 is certainly impactful, but the environment, both economic and financial, has transformed over the last several decades leaving us coping with historically low Treasury interest rates, entwined global economies and intense monetary and fiscal engagement.

Fixed income investing often involves long term planning. Moments in time should not necessarily dictate timing nor alter long term goals; however, fundamental economic and market variations amassed over long periods of time command logical and deliberate strategy modifications.

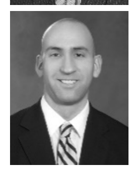
For many investors, the primary purpose of Fixed Income is preservation of capital. This goal does not change but investor complacency toward preservation of capital is constantly under attack by our own emotions, competing asset allocations and market conditions. If nothing else has been engrained about the overall portfolio as a result of our medical crisis, please take away the imperative role that individual bonds played and will continue to play in healthy portfolio asset allocations. The left and right side of the brain carry out very different functions although neither is more or less important and neither is a substitute for the specific part each performs. A healthy portfolio demands appropriate balance in asset allocations of growth assets and preservation assets.

This quarter we lay the foundation of core fixed income investing. This is not a “one size fits all” science. It is a road map that embraces very tailor-made modifications based on individual risk tolerances, individual needs and investors’ emotional dissimilarities. We have tapped the vast Raymond James resources including analysts, traders, advisors and our own Fixed Income Solutions team to offer big picture as well as singularly molded ideas for rethinking your overall portfolio strategy via fixed income.

A special thanks for contributions from: Richard Tribolet and the municipal trading desk, Sarah Tucker, Mike Petersen and the taxable trading desk, Nick Goetze, Ted Ruddock, Gina Fay, Beau Snowden, Ceci Anderson, Camille Hernandez, Noreen McClure, Mario Sceusa, Roxanne Post, and Alicia Wyatt.

FIXED INCOME QUARTERLY CONTRIBUTING STRATEGISTS


DOUG DRABIK


DREW O’NEIL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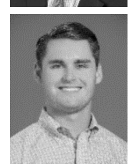

ROB TRIBOLET

IN THIS REPORT

Case Studies – What Has the Pandemic Revealed About Investors?

Typically we review case studies in the closing section to illustrate live applicable instances related to the areas of study presented. In a twist to this scenario, one silver lining to the recent pandemic is that it may have uncovered a method for us to self-examine our own risk profiles.

Why is this relevant or important? Knowing and understanding our risk profile allows us to help maximize our returns and assess potential downsides. An investor completely familiar with, having a deep understanding of, and a comfort with a particular corporation might be better served by investing in debt issued by that corporation say at 2.42% versus investing in a "safer" Treasury credit of the same maturity at 0.50%.

For ease of demonstration, we group investors into three generic buckets based on their reactions to the pandemic. In reality, most investors will fall somewhere between two of these buckets as they carry characteristics of varying degrees to the extremes.

Case Study I: The Panicked Investor

The Scenario:

If your main reaction to this pandemic was, "Oh my… am I going to get my money back? I need to know if this bond is going to default. I'm scared my future will fade away in defaults…" The best word to describe my feelings is *panicked*!

Just Concerned About Getting Cash Back?

…Too Much Risk?

Considerations:

Many of the investors within the Raymond James network rely on fixed income allocations as the primary tool to help preserve principal. Principal preservation can be viewed in many ways. No one desires to *lose* principal; however, some investors may choose to *use* principal. A fallen NAV, depreciated stock price or defaulted bond are incidents that *lose* principal. If a bond's price drops, you do not lose principal if held to maturity. A premium bond's cash flow is a way to *use* cash flow as the payment represents both interest and a partial return of premium (principal).

Strategy:

Concern, inquiry and re-analyzing your situation are healthy reactions. If the pandemic has panicked you, destroyed your ability to sleep or you've chewed your nails off, you appear to be a risk averse investor and the investments you choose may need to be adjusted to better match your risk profile. Unfavorable market conditions can occur with any bond during the holding period. You probably need to discuss higher quality credits that have less price volatility and are generally less likely to default.

You also should reassess your asset allocation. Bonds tend to carry a lesser amount of risk than equities, real estate or other growth assets. If you are that concerned about the credit risk of your bonds, it is likely that you are even more concerned about other more volatile assets.

The bottom line is your overall strategy may need to shift to less relatively risky asset classes and/or higher quality credits within those asset classes.

Case Study II: The "Safe" Investor

The Scenario:

This investor may think they have a plan, even if they disregard their long-term strategy. They retreat to front-end credits or revert to cash because they really are not sure what to do.

Ultra Safe?

…Retreat to Front-end Credits or Cash?

Considerations:

There is no right or wrong and all investments involve some level of risk. Timing markets with fixed income and altering long term plans can skew results. Remember that if the primary goal is to protect principal and this does not change whether interest rates are rising or falling. Laddered portfolios have been viewed as a prudent long term strategy primarily to provide disciplined reinvestment opportunities and mitigate interest rate risk. Leave speculation to the growth asset allocation and allow the principal preservation characteristics of fixed income to provide balance.

Strategy:

Simply stay the course. Laddered portfolios may need to take on an adjusted duration and credit parameters as this will be detailed in the following articles in this quarterly. It is unlikely that attempting to time the markets will produce advantageous results for a long term plan. Growth assets often rely on tactical plays where fixed income relies on strategic thinking.

Case Study III: Appropriately Allocated Investor

The Scenario:

The pandemic created mayhem in the markets and fostered historic day-to-day volatility. These investors recognize the unpredictability of reaction but also understand that their portfolio will continue to produce cash flow and income as intended from the time of purchase. In addition, they recognize that the dislocation may provide opportunity via unjustified or misunderstood actions by other investors.

Seeing This As an Opportunity?

…About Right Allocation?

Considerations:

Markets are imperfect and the future is ultimately unpredictable. When the long-maturity bond fluctuates up 6 points, down 5 points, up another 2 points, etc… it is telling us that uncertainty is proliferating. This disparity in the expected future creates opportunity. Opportunity for one investor may be to jump ship and cut losses while to another investor, they are delighted to acquire what they believe is mispriced and may be offering above market returns.

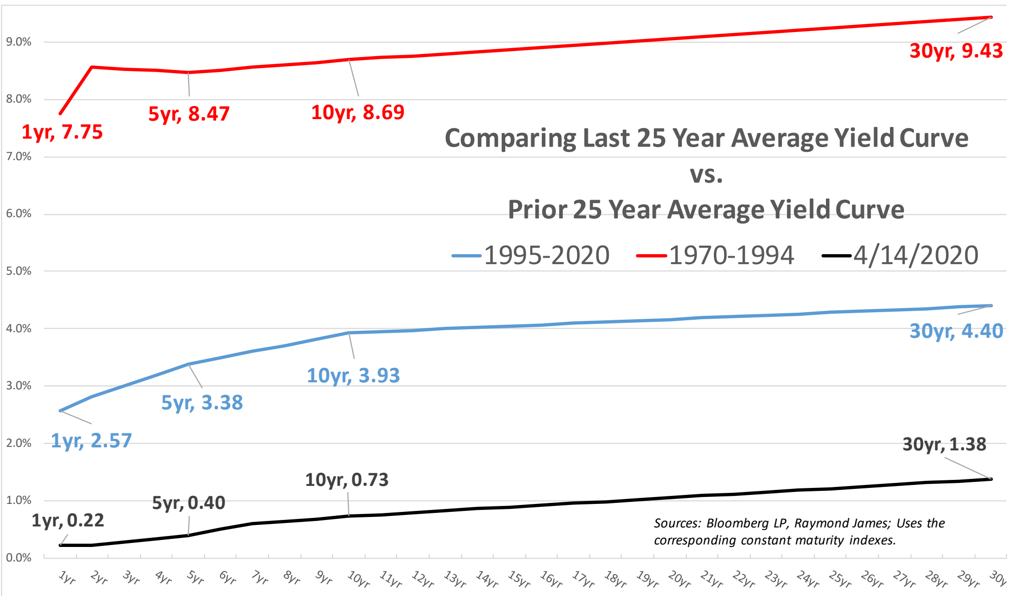
Strategy:

Caution should apply to all, and staying in your investment lane is important. A risk averse investor need not venture into riskier credits or longer maturity bonds than they are comfortable holding. However, within the risk profile of each investor, the market dislocation can reveal spot opportunities worthy of consideration.

Spreads are considerably wider than they have been for some time. High yield investors are being paid to take on additional risk. Although Treasury yields have declined, spread widening has preserved corporate and municipal yields that also still possess a steeper and elevated curve. Layer in higher quality bonds which can meet long term planning and provide higher yields through their maturities.

The Interest Rate Environment Has Changed Dramatically

Are yields and expected forward curves similar over time? Interest rates have been in a general declining state for more than 38.5 years. The last 25 years of average Treasury curve rates are meaningfully different versus the prior 25 years. Today's Treasury rates are near their historic lows across the entire maturity spectrum, hovering near the absolute bottom of the range average.



Many investors' primary buying goal is protection of principal which can be achieved by holding relatively high quality bonds until they mature. Price fluctuations during the holding period of a bond held to maturity ultimately do not affect the bond's performance or alter the maturity date's return of face value. During these years, investors reaped the benefits of bond price appreciation. This was a mere "side" benefit that in many cases reflected high total returns and did allow investors with the option of redeeming the bond ahead of maturity while capturing a profit.

The benefit of market price appreciation will disappear in a rising interest rate environment (prices decline when rates rise). Although we don't anticipate interest rates to rise significantly anytime soon, with interest rates so close to zero, this potential "side" benefit does not exist unless we see negative interest rates. Negative interest rates have been declared as a last option by the Fed.

Reinvestment risk refers to the possibility that future cash flows will not be able to be put back into the market at the current interest rate. Now that interest rates are near zero, this risk has been significantly reduced for Treasury bonds.

Inflation over the last 25 years is 1/3 of what it was the previous 25 years. The 1.71% 25 year average is below the Fed's own target rate of 2.00%.

With the resurgence of central bank QE programs around the globe, inflation cannot be ruled out. During the 1st implementation of QE after the 2008-2009 Great Recession, the Fed prevented inflation of goods and services by maintaining much of the money within the banking system. Excess Reserves were encouraged by offering interest. However, one could argue that asset inflation occurred and helped prop up the stock and bond markets. There is reason to believe, but no guarantee, that a similar effect is likely as large amounts of fiscal and monetary stimulus are pumped into the market.

		Prior 25 Years 1970-1994		Last 25 Years 1995-2/29/20	
	12/31/74	10.04	**High**	2.49	09/26/06
PCE		5.09	**Average**	1.71	
	12/31/94	2.18	**Low**	0.90	12/31/10
	09/03/81	17.31	**High**	7.32	01/15/95
1y Tsy		7.75	**Average**	2.57	
	10/01/92	2.96	Low	0.08	09/19/11
	09/08/91	16.95	**High**	7.73	01/03/95
2y Tsy		8.56	**Average**	2.82	
	10/01/92	3.67	**Low**	0.16	09/19/11
	09/30/81	16.27	**High**	7.90	01/09/95
5Y Tsy		8.47	**Average**	3.38	
	10/15/93	4.57	Low	0.37	03/31/20
	09/30/81	15.84	**High**	7.89	01/09/95
10y Tsy		8.69	**Average**	3.93	
	10/15/93	5.19	**Low**	0.54	03/09/20
	10/26/81	15.21	**High**	7.93	01/03/95
30Y Tsy		9.43	**Average**	4.40	
	10/15/93	5.78	Low	0.99	03/09/20

Sources: Bloomberg LP, Raymond James

Shorter Holding Periods… Quicker Reinvestment

Ordinarily, longer maturities exhibit higher rates (positively sloped curve) since there are more uncertainties involved with longer periods of time and investors want to be rewarded for taking greater risk. Therefore a 10- or 30-year Treasury rate will be higher than a 1- or 2-year Treasury rate. Prior to the last recession, the yield curve flattened and eventually inverted (meaning short term rates were higher than longer term rates). Then, after the recession, interest rates returned to being positively sloped. Over the next several years, the spread between 2 year rates and 30 year rates widened.

Although longer term Treasuries have higher durations (more volatile price movement), the nominal yield difference over this time period is greater on shorter term Treasuries. The graph depicts how the 1 year Treasury (black line) displays much greater yield swings than the longer maturities.

The box shows that a 513 basis point swing on the 2 year Treasury translates to a ~9.5 point price difference. By comparison, a lesser 472bp swing on a 10 year Treasury is ~37.5 point price difference.

For a buy-and-hold investor less concerned about total return, income (yield) is more important than price. With rates across the curve near historic lows, there might be a higher propensity long term for interest rates to rise. Positioning shorter term will be strategically aligning for quicker turnaround and reinvestment into a potentially higher interest rate environment.

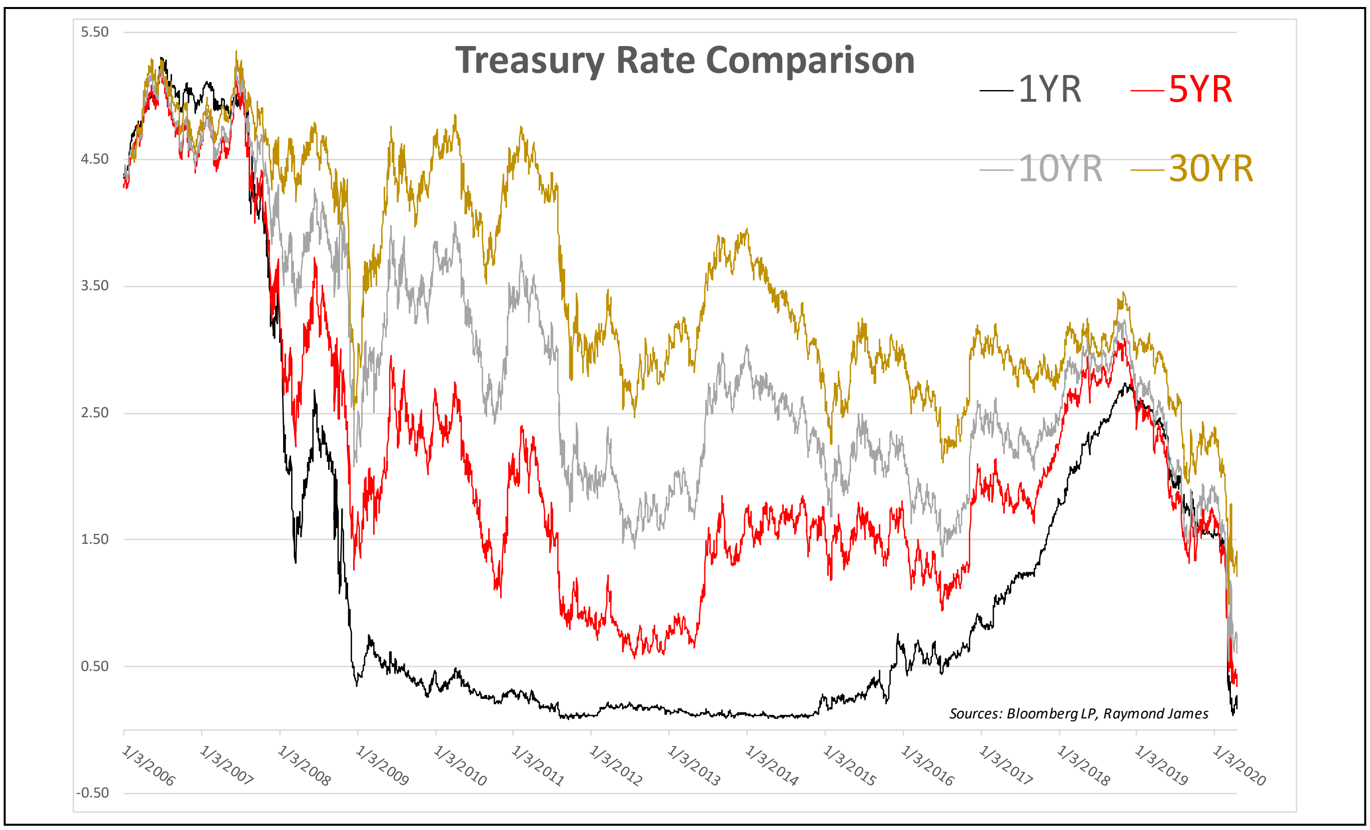
With interest rates near historically low levels, any rise in interest rates translates to price depreciation. The past side benefit of price appreciation has far less potential going forward. This distinction only matters if a bond is sold prior to maturity.

A compressed curve gives very little difference in short, intermediate and even long term rates yet durations may still vary vastly. The flat rate differences do not compensate for the higher riskier durations. Lowering durations will translate to shorter holding periods and quicker reinvestment time frames, an advantage when interest rates begin to rise.

Current 2yr/10yr Treasury Prices at 16 year Highs & Lows

	High Yld	Price	Low Yld	Price	Yld Dif	Price Dif
2 yr	5.29	90.97	0.16	100.42	513 bp	9.45
10 yr	5.26	71.41	0.54	109.18	472 bp	37.77

Sources:Bloomberg LP, Raymond James



Allocation Wake-Up Call

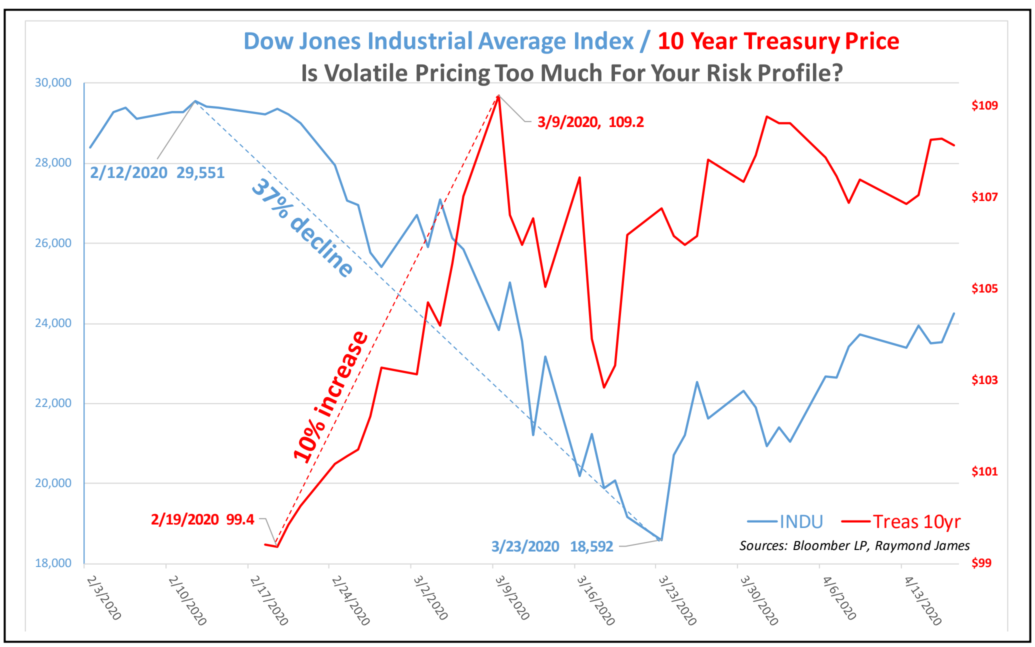
An investor's individual goals and risk tolerance help to determine an appropriate portfolio allocation. Ideally, it balances the potential upside with the potential downside seeking to achieve the long-term objective while keeping the downside within an investor's comfort range.

The recent sharp pullback in the equity markets has provided a wake-up call to many investors about just how much risk they have in their portfolio. It is easy to be comfortable with an aggressive allocation when everything is going well and stock prices are steadily rising. Unfortunately, ever-rising equity markets provided many investors with a false sense of security. Yes, any investor is going to be comfortable with an aggressive portfolio allocation when it is gaining 10% every year. It is only when reality strikes and that trend breaks that investors learn that while they are comfortable earning 10% per year, they may not be comfortable with the potential 30-50% pullback that can come along with an aggressive allocation.

If the sharp drop in equities caused panic and a desire to take some risk off the table by moving to a more conservative allocation, then you may have had too much risk in your portfolio. **If the pullback put your financial future at risk, your allocation and risk tolerance were not aligned. If a portfolio is allocated properly, you should be comfortable holding that allocation through both the good and bad times.** You should be able to enjoy the 10% annual increases while at the same time be able to stomach a 40% pullback. The wake-up call that we have all received in 2020 is reminding us to take a second look at how much risk we really want to be taking with our hard-earned nest egg.

Fixed income is generally the conservative, stable part of a portfolio. The return on individual bonds is not dependent on price movement when they are held to maturity. The income, cash flow, and date that you will have your face value returned to you is known from the day the bond is purchased, assuming you hold until maturity (barring a default). It is important to remember that these are the reasons you own fixed income.

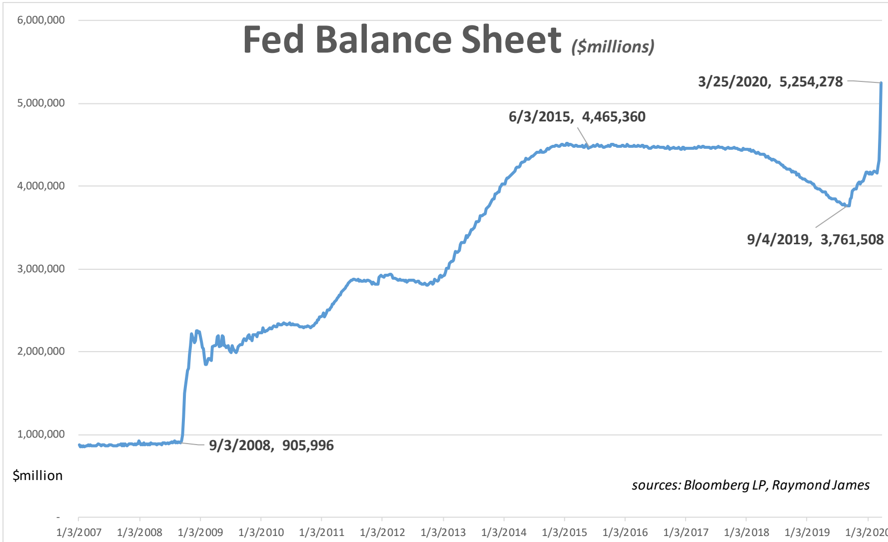
Over the years, many investors used substitute investments as part of their fixed income allocation in a reach for yield. Unfortunately, many of these fixed income substitutes do not have the characteristics that true fixed income assets provide. Buying high-dividend stocks seems like a great idea until the value of the stock falls by 30% and/or the company cuts or eliminates the dividend. Under this scenario, an investor not only loses 30% of their principal, but in addition, their cash flow ceases or is reduced. Many packaged "fixed income" products have no known redemption date or price, so the liquidation value is dependent on price movement. They also do not provide a known income or cash flow, as the underlying holdings are constantly changing. Essentially, even though they may hold fixed income investments, nothing about the package itself is "fixed".



Now is as good a time as ever to do two things:

- Look at your allocation and ask yourself if it still aligns with your risk tolerance. Can you handle the downside that comes with the upside? If not, it might be time to re-allocate.
- Look at the fixed income portion of your portfolio and ensure that it is actually allocated to fixed income, not a fixed income substitute or alternative. It's the conservative portion of your portfolio for a reason.

The Takeaway:



- Treasury Interest rates are at or near historic lows. The Fed's monetary program continues to grow its balance sheet which will likely keep interest rates low for longer.
- Total return "side" benefits of fixed income are not likely to continue going forward.
- Reinvestment risk is dramatically reduced.
- Inflation on goods and services is NOT a likely consequence of the newest stimulus money.
- Bonds are highly valued (low yields).
- Shorter holding periods also mean quicker reinvestment.
- Learn from the crisis. Is your risk profile accurate? Do your allocations need to be amended?

	10Yr Treasury		Corporate A vs Treas 10Yr	Corporate BBB vs Treas 10Yr	Muni AAA Yld as % of Treas 10Yr
Feb-20	99.85	1.57%	0.81	1.27	76.5
Mar-20	106.18	0.85%	2.60	3.22	339.6
Apr-20	108.14	0.64%	1.50	2.21	175.1
					sources: Bloomberg LP, Raymond James

What to Do and Not to Do?

Portfolio Perspective	Identify your risk profile. This may be much more apparent having invested through this pandemic. Consider reducing credit and duration risk if you prefer reduced price volatility in the portfolio. Ask your financial advisor to help identify dislocation opportunities if your risk profile is accurate.
	Maintain or firm your discipline to asset allocation. If the market downturn created an unacceptable/undesirable portfolio loss, tighten your credit parameters and reconfigure your allocations between principal preservation assets (fixed income individual bonds) and growth assets (equities, real estate, MLPs, etc.).
	While we generally feel lowering duration applies, spot opportunities (especially in this time of market dislocation) may be uncovered by your fixed income team that may apply to the long term plan to help meet your investment objectives.
	This is not an environment to act outside your risk profile. If you are risk averse, continue to invest within those parameters. If your risk profile includes a calculated degree of risk allowing for speculation, the high yield space is once again paying investors for that risk.

Municipal	With new money or cash flow, consider modifying ladder maturities in the 8 to 15 year range, with durations around 6-7.
	Investors whose main focus is on achieving a certain amount of cash flow should focus on high-coupon (4.00%-5.00%) bonds (*higher current yields*). Investors that need specific cash flows for living expenses can consider *using* the higher cash flows which include designed amounts of principal (this can be calculated so as to ensure appropriate use and viability over expected time horizon).
	Conservative investors should focus on sectors expected to weather the pandemic more proficiently: State GOs, strong local municipalities, essential service revenue bonds, K-12 education. Avoid (in the current market): nursing homes, stand-alone hospitals, convention centers, stadiums, student housing projects, higher education with lower demand and/or rating (public and private), mass transit, specialty tax-backed bonds (hospital related). (We will reassess as the pandemic recesses).
	Examples for Demonstration: (assumes AA-rated tax exempt) Conservative Investors: 1-5 years, duration ~3, YTM ~0.90% Conservative – Moderate: 3-7 years, duration ~5, YTM ~1.00% Moderate: 7-15 years, duration ~7.5, YTC ~ 1.35% Aggressive: 10-30 years, duration ~9, YTC ~1.65%+
Taxable	Ultra-conservative investors (short term outlook) should look to brokered CDs, as they are FDIC insured and offer generous yield pickup to Treasuries.
	For corporate bond buyers, look to ladder maturities in the 2 to 7 year range, with a duration around 3. This spreads maturities out and may allow for consistent reinvestment opportunities should rates begin to rise.
	Conservative investors should stick to “brands and balance sheets”, meaning solid issuers with balance sheets set up to weather the current pandemic. Many higher-quality utility providers should perform well during the economic downturn.
	As continued downgrades are expected in some sectors, focus on higher rated (Baa1 or higher) issuers.
	Investors interested in finding value in oil/energy names should focus on the larger players in the industry and/or pipelines over exploration and production companies and limit exposure to that portion for which greater price volatility can be accepted.
	Examples for Demonstration: Conservative Investors: <=1 year, CDs ~0.40%-0.85%, IG corp ~1.00%-1.50% Conservative – Moderate: 2-5 year A-rated Ladder: ~1.35%-1.60%, duration ~3.2 Moderate: 2-7 years BBB-rated Ladder ~ 1.75%-2.25%, duration ~4.7

What to Consider When Bonds Get Downgraded

The entire global economy is transforming due to medical, monetary and fiscal reactions to the pandemic. Entire industries have virtually come to a halt, supply chains have been disrupted, municipalities are spending money on things they never planned for, the educational system has essentially been halted or moved online, public transit ridership is minimized, a large portion of the world's population has been ordered to remain in their homes… the list goes on and on. The disruption to business and pause in consumer spending will alter credit metrics and likely result in previously unforeseen credit rating downgrades (both municipal and corporate).

Credit rating downgrades, or even the chance of one, are creating a lot of questions: Should I be concerned? Should I sell? Why were they downgraded? How does this affect my portfolio? Will they be downgraded again? Are they going to default? The answer to these questions will vary based on issuer and their financial position. There are indicators and analyses to consider before succumbing to an emotion that urges an immediate sale when the bond in question may still afford portfolio benefits. Consider some of the following:

What is the new credit rating on my bond? If a credit is downgraded from AA+ to AA, the bond is still well within the investment grade range and may still be within your risk parameters. If it was downgraded from AA- to BBB-, the several credit-notch fall indicates a bigger financial impact and looking forward, the bond may no longer be appropriate. Consider not necessarily where the bond rating came from, but where it landed.

What is the outlook and watch status following the downgrade? If a bond was downgraded with a stable outlook *(not put on a negative watch for another downgrade),* the rating agency is indicating that the issue is not currently under review for another potential downgrade. If a bond gets downgraded and remains on negative watch, there is a higher likelihood of another future downgrade.

Why was the credit downgraded? Did their leverage ratios increase due to an acquisition that required them to issue more debt? This could be viewed as less concerning if the company is growing and diversifying through the acquisition. Increased leverage ratios due to decreased sales tells a very different story. A toll road's decreased revenue projections resulting from an extraordinary event such as a shelter-in-place order may logically be temporary, whereas, if it is due to competition from a new high-speed rail line being built, it likely have long-term effects.

Was the downgrade due to some specific event related to that company/municipality (i.e. litigation fallout or a large product failure)? Was it an internal factor or an external factor? Was it something that they can control in the future or something outside of their control. Is it likely to happen again or was it a one-time aberration?

Is there something affecting the entire industry/sector (i.e. brick and mortar retail battling the shift to online shopping, a drop in commodity prices, or a regulatory change)? If so, how is the specific credit positioned within the industry/sector and can they overcome those challenges?

Was the downgrade related to a long-term negative trend or some sort of immediate shock? Falling municipal finances over time due to poor management is a trending concern. Conversely, a growing school district that was downgraded for increased leverage ratios resulting from new school construction finance may be acceptable.

Is the cause of the downgrade likely temporary or permanent? Travel restrictions directly impact airlines and airports. If well capitalized and/or subsidized, this may be a temporary situation. On the other hand, if they exist paycheck-to-paycheck, even a temporary shock could have severe negative credit implications.

A downgrade may also negatively impact pricing. Price movement does not affect the return for a buy-and-hold investor. The only two ways to lose money on an individual bond are to sell the bond at a loss before maturity or the company defaults. One of those things is in your control. Consider each downgrade with credit intelligence.

5-Year Investment Grade Default Rates		
1970-2018	Municipals	0.04%
	Global Corporates	0.89%
2009-2018	Municipals	0.06%
	Global Corporates	0.53%

Over a rolling 5-year period, investment grade municipal and corporate bonds have historically NOT defaulted over 99% of the time.

Source: Moody's Investor Service

A downgrade does not mean a default. Suitability is based on long-term objectives combined with individual risk tolerances. Default rates on high quality corporate and municipal bonds are uncommon. Selling a bond prematurely might have real negative consequences when market conditions are unfavorable. There may be appropriate times to sell a specific credit but always reassess whether a downgrade still keeps a credit within your appropriate risk profile.

Fixed Income Strategy Resources

Doug Drabik - Sr. Fixed Income Strategist
Drew O'Neil - Fixed Income Strategist
Rob Tayloe - Fixed Income Strategist
Rob Tribolet – Fixed Income Strategist

> "When it comes to your income, is success measured by an index, or when your individual needs and goals are met?"

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 450 fixed income professionals including trading and public finance specialists in 38 nationwide locations. This publication does not constitute Fixed Income research, but rather it represents commentary from a trading perspective.

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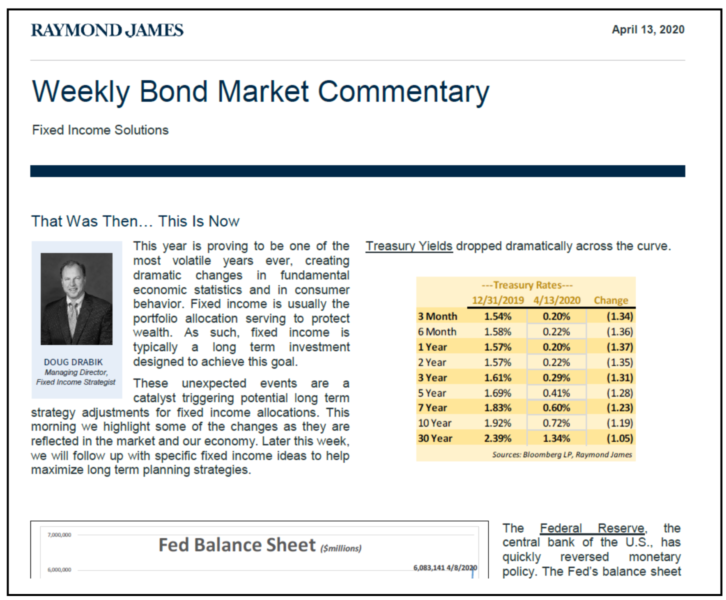
- Weekly Bond Market Commentary
- Fixed Income Weekly Primer (PDF)
- Municipal Bond Investor Weekly (PDF)
- Fixed Income Quarterly (PDF)
- Weekly Index Monitor (PDF)
- Weekly Interest Rate Monitor (PDF)

Investment Types/Expertise Include

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



RAYMOND JAMES April 13, 2020

Weekly Bond Market Commentary

Fixed Income Solutions

That Was Then… This Is Now

DOUG DRABIK
Managing Director, Fixed Income Strategist

This year is proving to be one of the most volatile years ever, creating dramatic changes in fundamental economic statistics and in consumer behavior. Fixed income is usually the portfolio allocation serving to protect wealth. As such, fixed income is typically a long term investment designed to achieve this goal.

These unexpected events are a catalyst triggering potential long term strategy adjustments for fixed income allocations. This morning we highlight some of the changes as they are reflected in the market and our economy. Later this week, we will follow up with specific fixed income ideas to help maximize long term planning strategies.

Treasury Yields dropped dramatically across the curve.

	---Treasury Rates---		
	12/31/2019	4/13/2020	Change
3 Month	**1.54%**	**0.20%**	**(1.34)**
6 Month	1.58%	0.22%	(1.36)
1 Year	**1.57%**	**0.20%**	**(1.37)**
2 Year	1.57%	0.22%	(1.35)
3 Year	**1.61%**	**0.29%**	**(1.31)**
5 Year	1.69%	0.41%	(1.28)
7 Year	**1.83%**	**0.60%**	**(1.23)**
10 Year	1.92%	0.72%	(1.19)
30 Year	**2.39%**	**1.34%**	**(1.05)**

Sources: Bloomberg LP, Raymond James

Fed Balance Sheet *($millions)*

The Federal Reserve, the central bank of the U.S., has quickly reversed monetary policy. The Fed's balance sheet

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 principal will be returned. While most individual bonds provide all of 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 given situation. Here we shed a little light on when various products might be appropriate.

Tax-Exempt Municipals

Investors in high tax brackets seeking very high credit quality (typically A to AAA) investments that provide tax-efficient cash flow and income.

Taxable Municipals

Investors who are either not in a high tax bracket, or are investing for a qualified account, that want very high credit quality (typically A to AAA rated) investments.

Investment-Grade Corporate Bonds

Investors who are either investing in a qualified account or not in a high tax bracket, that want high credit quality investments but also want to maximize yield. Investment-grade quality is desired but AA or AAA rated securities are not a requirement. Most of this market carries BBB or A ratings.

Treasuries

Investors that want minimal to no credit risk and want maximum liquidity. Safety of principal and liquidity are the primary concerns, while return on investment is secondary.

Brokered CDs

Investors who want FDIC insured investments, oftentimes seeking more FDIC coverage than can be obtained from a single bank. FDIC insurance is the top priority, return on investment is secondary.

Preferred Securities

Investors seeking high cash flow that does not require a defined maturity date. A more aggressive investment than a corresponding corporate bond in that they are typically lower rated and often do not have a specified date for principal return.

Many wealthy investors choose individual bonds to preserve their wealth. Laddered strategies can provide defined cash flows, steady income and a known maturity date. Ladders can be designed with flexibility allowing investors to obtain very individualized results. The table below summarizes a few illustrative portfolios to give investors an idea of current yields.

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

	Portfolio Statistics					Credit Quality			
	Maturity Range	Avg. Maturity	Duration	Yield to Worst	TEY*	AAA	AA	A	BBB
Municipal Ladders	1 to 5	3	2.81	0.98%	1.65%	20%	60%	15%	5%
	1 to 10	5.5	4.90	1.07%	1.80%	20%	60%	15%	5%
	1 to 15	8	6.82	1.23%	2.08%	20%	60%	15%	5%
	5 to 10	7.5	6.45	1.14%	1.92%	20%	60%	15%	5%
	5 to 15	10	8.24	1.33%	2.24%	20%	60%	15%	5%
	5 to 20	12.5	9.89	1.49%	2.52%	20%	60%	15%	5%
	10 to 20	15	11.41	1.67%	2.82%	20%	60%	15%	5%
Corporate Ladders	1 to 5	3	2.79	1.76%				25%	75%
	1 to 10	5.5	4.85	2.12%				25%	75%
	1 to 15	8	6.71	2.39%				25%	75%
	5 to 10	7.5	6.35	2.40%				25%	75%
	5 to 15	10	8.07	2.64%				25%	75%
CD Ladders	1 to 2	1.5	1.45	0.88%					
	1 to 3	2	1.91	0.92%					
	1 to 4	2.5	2.36	0.99%					
	1 to 5	3	2.81	1.04%					

*Sources: Raymond James, Bloomberg LP, MMD; as of 04/21/2020. *TEY is based on the top federal tax bracket (37%) plus the Medicare surtax (3.8%). Yields shown are illustrative only, calculated using the arithmetic means based on the maturity range combined with the credit quality percentages, and are not inclusive of sales credit. Certificates of Deposit offer FDIC insurance and a fixed rate of return whereas the principal value of fixed income securities will fluctuate with changes in market conditions.*

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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.

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