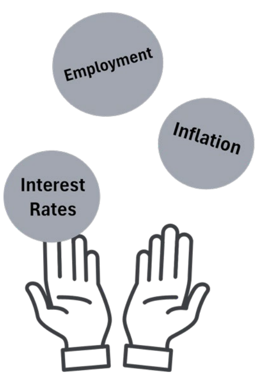
Fixed Income Quarterly

Market Perspectives from Fixed Income Solutions

Juggling Economic Data

Market pundits' predictions for this year didn't pan out. They called for significantly lower interest rates, struggling financial markets, and the economy either in or near a recession. It wasn't precisely the polar opposite either. The economy plodded along, with year-over-year Gross Domestic Product (GDP) running at 2.0% and 2.1% in the first two quarters. U.S. home sales have struggled all year to gain a solid footing. Personal income has not kept pace with sticky inflation, and consumption has been erratic.

The recent record-breaking 43-day government shutdown did the economy no favors and directly affected government workers' pay, SNAP benefits, benefits for women, infants, and children (WIC), veterans, and Congress. It led to a "sick out" among air traffic controllers, resulting in flight cancellations and airport chaos. Furthermore, the shutdown prevented significant delays or absences in data releases relied on by the market.

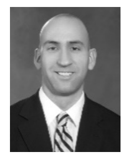


The Fed has addressed both of its mandates all year, seemingly pulling policy in opposite directions. Employment remains at respectable levels, though the numbers are trending down, which is creating market concern. At the same time, inflation as measured by Personal Consumption Expenditures, which has been hovering around 2.5% for the past couple of years, has trended higher over the last four months.

Despite the turmoil and economic uncertainty, it has been another remarkable year for investors. The stock market is experiencing its third consecutive incredible year, with returns of around 14% in 2025 (to date), following 26% and 25% returns in the previous two years. Interest rates remain in the elevated range they have been in for nearly three years, providing investors in fixed income with the dual benefits of capital preservation and high-income opportunities. This edition will dive into relevant economic factors and significant market opportunities.

FIXED INCOME QUARTERLY CONTRIBUTING STRATEGISTS

DOUG DRABIK



DREW O'NEIL

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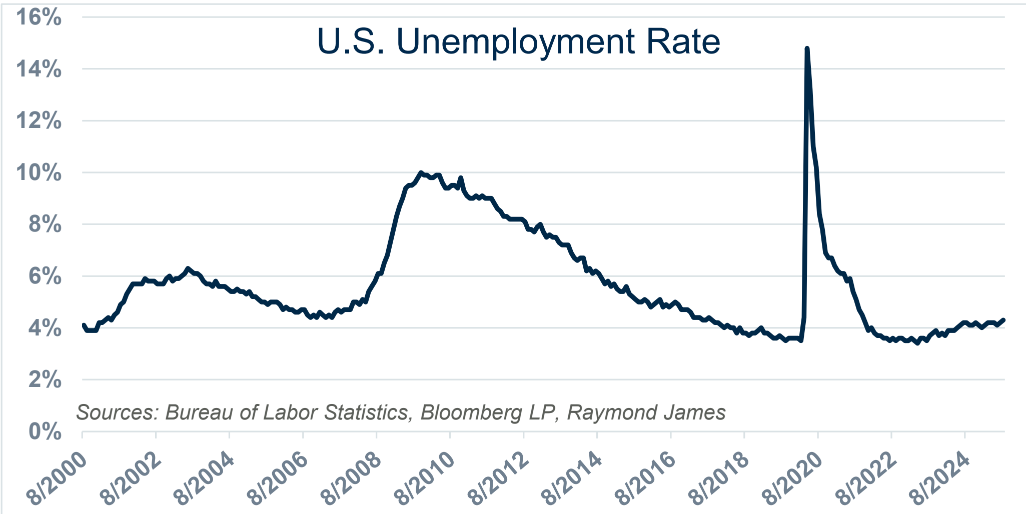
IN THIS REPORT

INFLATION

The Federal Reserve is entrenched in its struggle between its two mandates. They are charged with maintaining stable prices in the markets and striving for maximum employment.



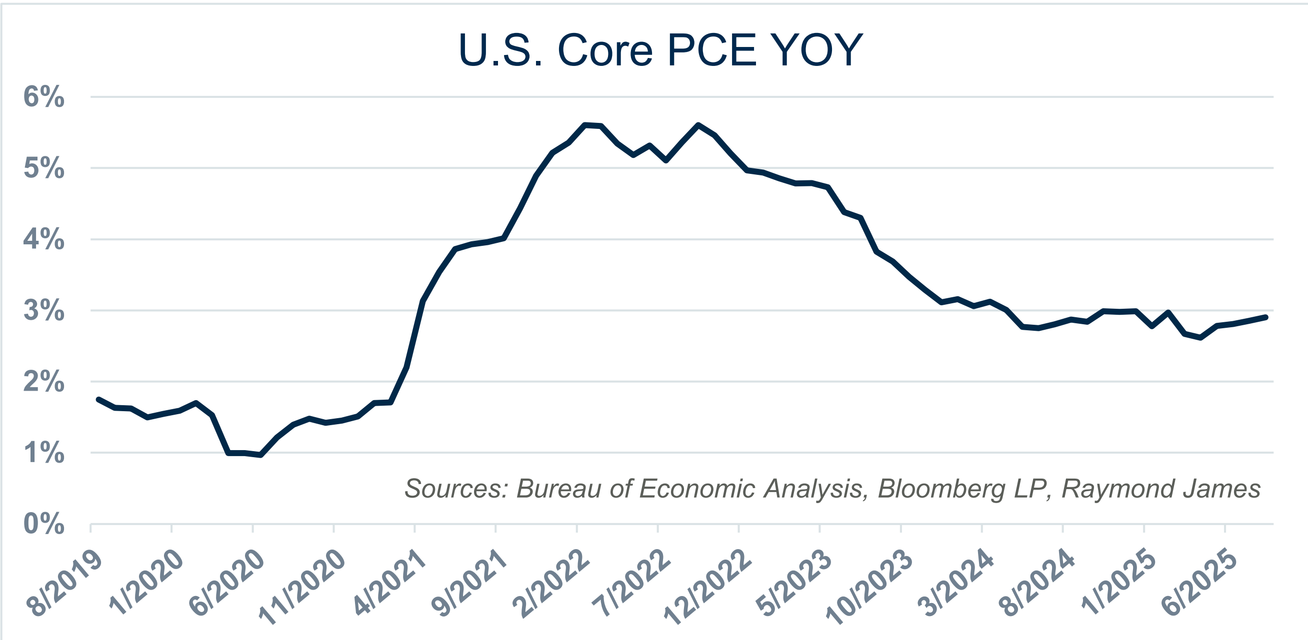
There appears to be some cracks in employment strength. Nonfarm Payrolls, which measure the number of jobs added or lost in the economy, have shown diminishing strength, falling well below averages in each of the last four monthly reports. Still, the overall unemployment rate stands at 4.3%, below the long-term target of 5%. The net level of employment remains favorable, yet the negative trend gives the Fed and investors pause.

Excessive inflation disrupts the ability to maintain stable pricing. Inflation, triggered by the pandemic, most recently peaked in September 2022, and inflation dropped precipitously from 2023 to mid-2024. There it stalled and has ticked higher in each of the last four months. Inflation, as measured by the Core Personal Consumption Expenditure (PCE) index, has yet to reach the Fed's 2.0% target and currently stands at 2.91%. Let's be clear: inflation affects everyone and every asset. It is easy to pinpoint the adverse effects inflation has on fixed income investments because the math is evident; however, inflation impacts every dollar spent on stocks, every dollar spent on a house, every dollar spent on food, and so on. There is no place to hide from inflation, so don't be misled by catchphrases or slanted biases. Inflation, as it often is implied, does not take your wealth. It is a reduction of purchasing power. Eventually, it can reduce your standard of living by preventing you from buying the goods or services you want or need.

One of the most potent tools the Fed has to combat inflation is its ability to raise the Fed Funds rate. Higher interest rates make borrowing more difficult for businesses and consumers, encourage saving, and discourage spending, thus slowing down the economy. However, restrictive policy is what the Fed is moving away from with its current rate cuts. This is their dilemma: between curbing inflation and adopting a more neutral policy position that better supports employment and encourages spending.

The argument exists that the Fed is limited in its ability to impact inflation. Regardless of the unemployment rate, if the economy is slowing while inflation remains elevated, there is a possibility of stagflation. The negative employment direction helps to fuel this argument. If the Fed raises rates high enough, it risks slowing economic output. If the Fed continues to lower rates, it risks stimulating inflation.

No one likes inflation as it reduces access to products and services by reducing purchasing power. Selling bonds to buy growth assets in hopes of mitigating inflation does not change the impact of inflation on invested dollars and may leave an investor exposed to other risks. The US economy's health moves the data that ultimately affects policy, as navigated by the Fed and the government.



EXPANSIONARY & RECESSIONARY PERIODS

An economic expansion is defined as a period during which the economy is growing, characterized by increased activity and robust employment. During expansion, the Gross Domestic Product (GDP) typically grows. Conversely, a recession occurs when aggregate demand decreases, leading to an economic decline. GDP and employment are often falling.

The last 13 recessionary and expansionary periods are detailed in the chart. The average length of a recessionary period over these 80 years was 0.9 years, with the longest, the Great Recession, spanning from December 2007 to June 2009 (1.6 years). Expansionary periods have lasted longer, averaging 5.3 years over the same time.

Recent history paints a different story. The last four recessions averaged 0.9 years, identical to the 80-year average. However, the previous four expansionary periods averaged 8.5 years, more than twice the average of the previous nine. Several questions come to light. Has the government and the Fed figured out how to suppress recessions? Soft landings, as they are referred to, occur when the Central Bank (the Fed) takes actions to keep the economy from overheating while avoiding both uncontrolled inflation and a recession. If so, is this constructive, or does it amplify any adverse consequences of the next downturn as economic cycles eventually move full circle?

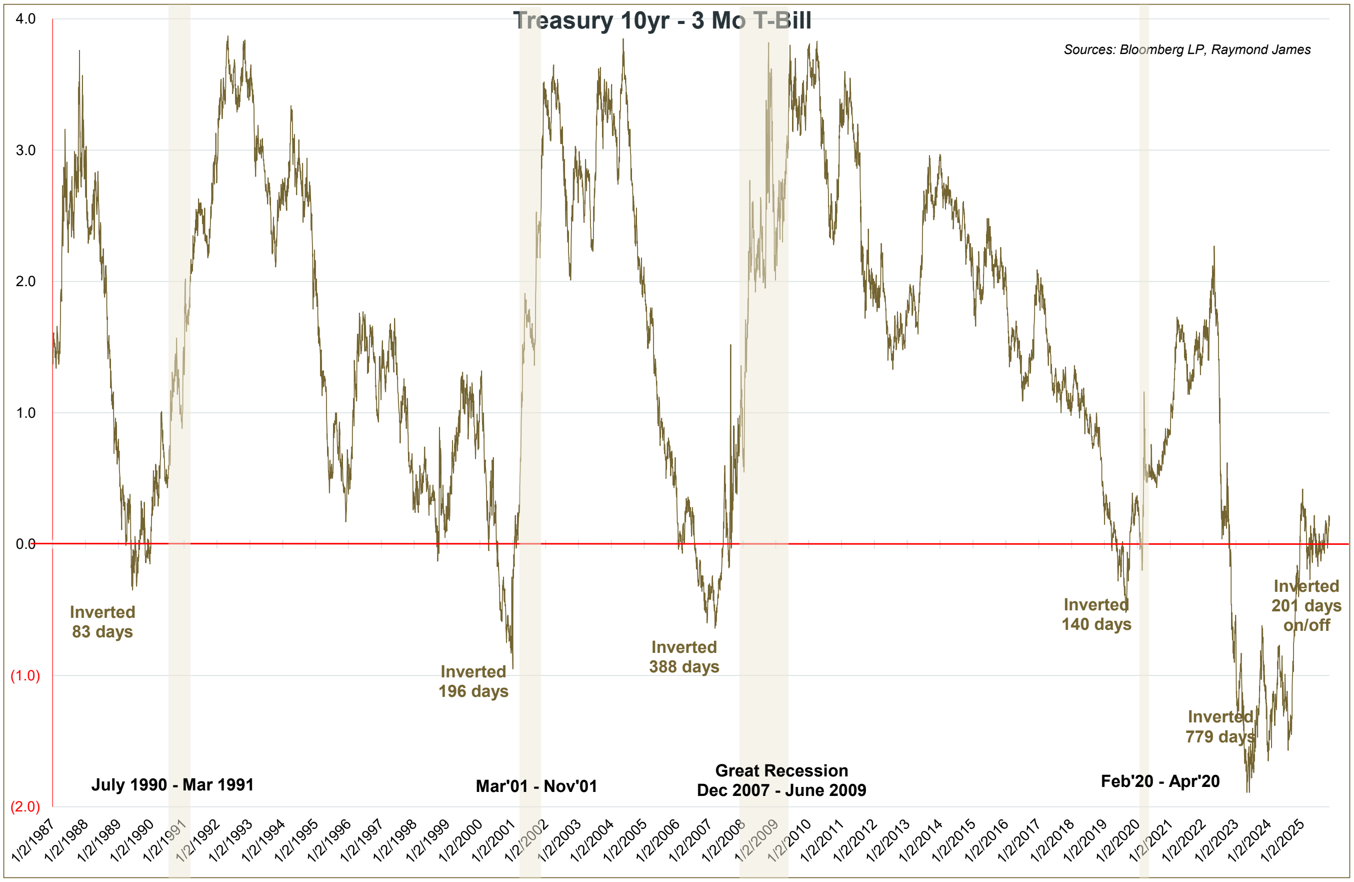
2025 is not the down year that many market experts anticipated. The expansionary phase continues with the third consecutive year of substantial stock market gains and the third year of elevated interest rates. The economy continues to expand, though at a slower pace and biased toward specific sectors and selective investors.

US Economic Cycle History

Recession		Expansion	
2/1/2020 – 4/30-2020	.02	5/1/2020 – 11/7/2025	5.5
12/1/2007 – 6/30/2009	1.6	7/1/2009 – 1/31-2020	10.6
3/1/2001 – 11/30/2001	0.8	12/1/2001 – 11/30-2007	6.0
7/1/1990 – 3/31/1991	0.7	4/1/1991- 2/28/2001	9.9
7/1/1981 – 11/30/1982	1.4	12/1/1982 – 6/30/1990	7.6
1/1/1980 – 7/31/1980	0.6	8/1/1980 – 6/30/1981	0.9
11/1/1973 – 3/31/1975	1.4	4/1/1975 – 12/31/1979	4.8
12/1/1969 – 11/30/1970	1.0	12/1/1970 – 10/31/1973	2.9
4/1/1960 – 2/28/1961	0.9	3/1/1961 – 11/30/1969	8.8
8/1/1957 – 4/30/1958	0.7	5/1/1958 – 3/31/1960	1.9
7/1/1953 – 5/31/1954	0.9	6/1/1954 – 7/31/1957	3.2
11/1/1948 – 10/31/1949	1.0	11/1/1949 – 6/30/1953	3.7
2/1/1945 – 10/31/1945	0.7	11/1/1945 – 10/31/1948	3.0
AVERAGE	0.9	AVERAGE	5.3

Sources: Bloomberg, Raymond James

The tan shaded areas of the graph highlight the most recent recessionary periods, while the unshaded regions mark the expansionary periods. The red line on the graph shows the 10-year Treasury rate minus the 3-month Treasury Bill rate. When the 3-month Bill yield is greater than the 10-year Treasury yield, the



line dips below 0, the red horizontal line. This reflects an inverted yield curve. It is also noteworthy to show that recessions historically follow shortly after an inverted yield curve becomes upward sloping, or what is considered a “normal” yield curve shape. For the last 200+ days, the yield curve has flirted with its inverted state versus turning upward sloping, all the while keeping the economy in its expansionary state. The uncertainty remains unresolved as inflation persists, and the job market becomes tentative.

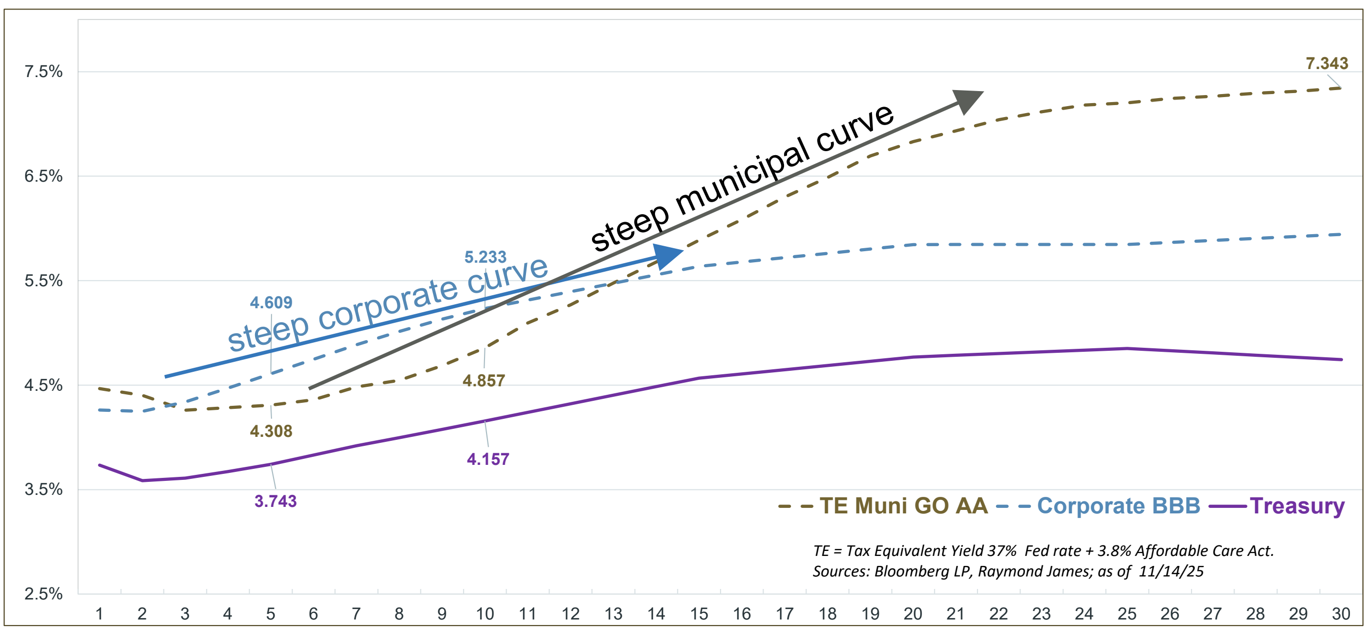
What does this mean for investors? This serves as a reminder to maintain a balanced investment portfolio comprising growth assets (equities) and wealth preservation assets (bonds), as market cycles will eventually play out.

WHAT'S WORKING AND WHY?

Extension Swaps

There are several common misconceptions in the fixed income investment world, and clarification can aid in long-term strategic planning. For example, it is often stated that investing in short-maturity instruments is a conservative strategy, implying a view that interest rates are likely to rise. If the thought is that interest rates are declining, it would be a disadvantage to have to reinvest dollars invested in short-term maturities into the upcoming low-interest-rate environment. Therefore, investing in short maturities is essentially a different perception of the direction of interest rates. This also highlights a related misconception. Swaps are not a one-to-one or equal trade-off. Typically, you are shifting one risk to another to capitalize on a different benefit. When you extend maturities in an upward-sloping curve, interest rate risk increases while the reinvestment risk decreases. Additional yield improves income while giving up a more concise investment timeframe.

Extension swaps are currently a common investment strategy for good reasons. First, although interest rate prognostication is ill-advised, most of us have a formulated opinion about the near-term interest rate direction based on the economy, data releases, Fed dialogue, and other fiscal and monetary discourse. The current consensus suggests that rates are likely to decrease, particularly short-term rates, as the Fed adjusts its monetary policy from a tightened stance to a more neutral position. If this is the case, it may be more advantageous to lock in higher rates now and for an extended period, rather than risk a poorly timed reinvestment of maturing assets.

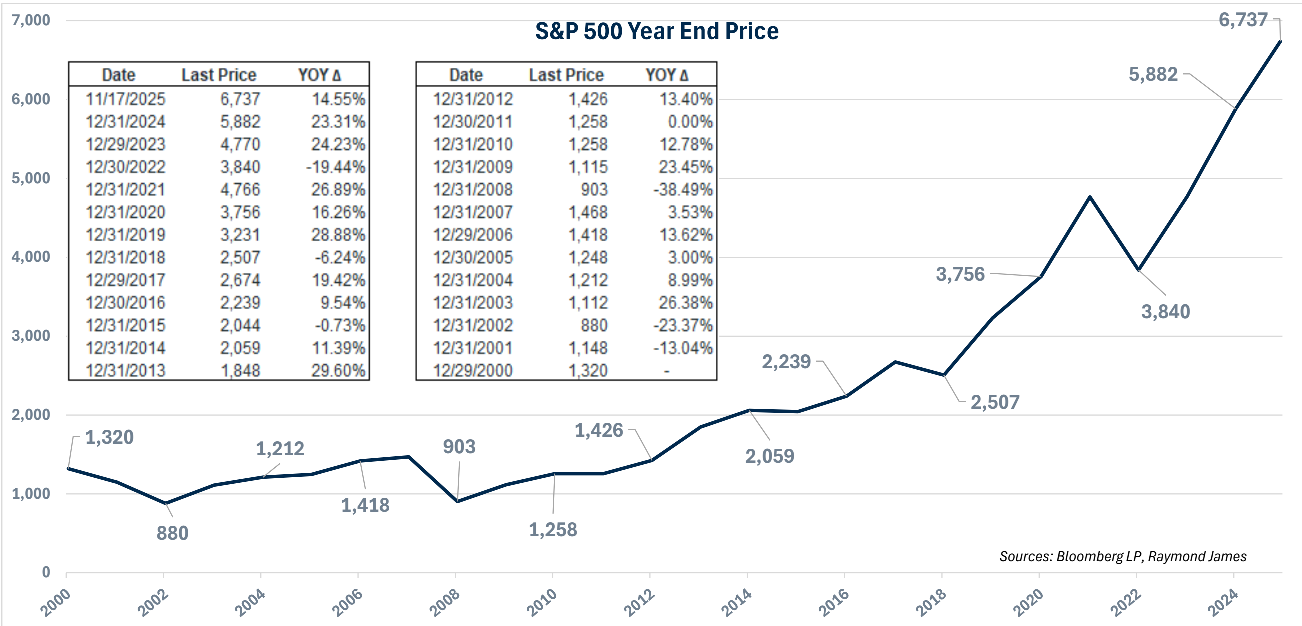


Second, many yield curves are upward-sloping. This economic cycle experienced an extended period with an inverted Treasury curve. When short-term yields are higher than long-term yields, there is an anticipation of an economic downturn. The downturn has not unfolded as projected, and the Fed is likely to move to a neutral stance rather than a more aggressive accommodative stance needed to stimulate growth. Meanwhile, the corporate and municipal curves have shown a steepening trend. Investors are being rewarded with higher returns for extending out in maturity (adding interest rate risk) while decreasing reinvestment risk.

Depending on an investor's liquidity, cash flow, and income needs, an extension swap may help to reach long-term goals.

Capture Equity Gains and Lock In

The stock market is currently experiencing a robust run. Timing, longevity, specific issuer selection, and other factors will vary by investor; however, stock market participants have generally fared well over the prior three years. Different investments have also generally fared well over the same time period, including real estate and privately owned businesses. Many investors have increased their net worth. Now may be an opportune



Date	Last Price	YOY Δ
11/17/2025	6,737	14.55%
12/31/2024	5,882	23.31%
12/29/2023	4,770	24.23%
12/30/2022	3,840	-19.44%
12/31/2021	4,766	26.89%
12/31/2020	3,756	16.26%
12/31/2019	3,231	28.88%
12/31/2018	2,507	-6.24%
12/29/2017	2,674	19.42%
12/30/2016	2,239	9.54%
12/31/2015	2,044	-0.73%
12/31/2014	2,059	11.39%
12/31/2013	1,848	29.60%

Date	Last Price	YOY Δ
12/31/2012	1,426	13.40%
12/30/2011	1,258	0.00%
12/31/2010	1,258	12.78%
12/31/2009	1,115	23.45%
12/31/2008	903	-38.49%
12/31/2007	1,468	3.53%
12/29/2006	1,418	13.62%
12/30/2005	1,248	3.00%
12/31/2004	1,212	8.99%
12/31/2003	1,112	26.38%
12/31/2002	880	-23.37%
12/31/2001	1,148	-13.04%
12/29/2000	1,320	-

time to lock in some of that newly attained wealth with capital-preservation-friendly fixed income. An extensively diversified portfolio of individual bonds can mitigate credit risk exposure while capitalizing on the market's higher interest rates.

A hypothetical example of $100,000 in stocks might be worth $182,362 over this nearly three-year period (actual investor results can vary). Reposition the $82,362 into wealth-preserving fixed income instruments that still capture a good return and keep the initial growth investment intact. This rebalancing may put portfolios back in line with their objectives, capture gains, and lock a portion of the proceeds into returns for a more extended period.

Reinvest Money Market and Other Short-Term Investments into the Steeper Part of the Curve

There is a tremendous amount of short-term money in the markets. ICI data currently shows over $7.3 trillion in money market funds alone. Short-term interest rates have been elevated for more than two years now. Whether an investor needed liquidity or not, short-term money market funds were yielding 4.0% to 4.5%, making it an easy decision to remain invested. This strategy remains effective as long as short-term interest rates remain elevated. The Fed has already lowered the Fed Funds rate by 150 basis points over the past 14 months, a policy that mainly influences short-term rates. As illustrated in the CD chart, an investor participating in a continuous short-term rollover has experienced significantly lower yields over time. Like other current strategies, the steeper curve creates a greater benefit when pushed into longer maturities.

	10/17/2023			11/17/2025	
	Treasury	Brokered CDs		Treasury	Brokered CDs
3Mo	5.61%	5.45%	3Mo	3.95%	3.90%
6Mo	5.58%	5.45%	6Mo	3.80%	3.75%
1Yr	5.42%	5.45%	1Yr	3.70%	3.70%
2Yr	5.09%	5.35%	2Yr	3.62%	3.70%

For illustrative purposes only. Source: Raymond James

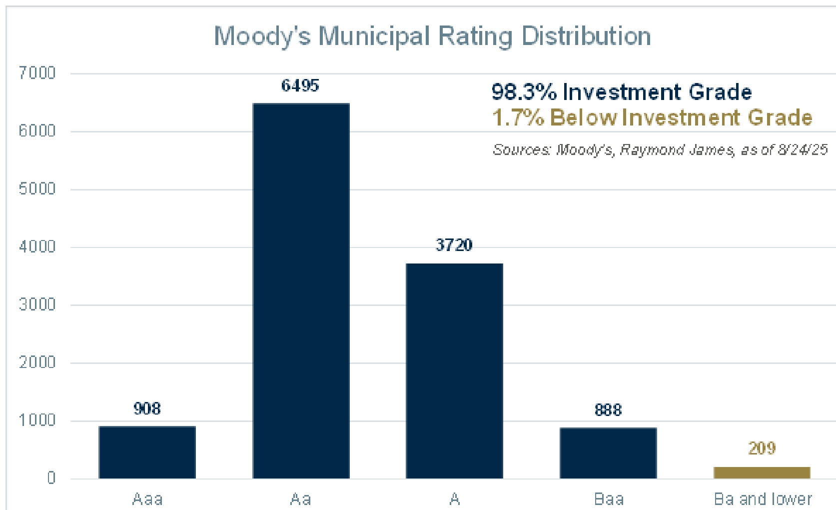
MUNICIPAL BONDS – HIGH QUALITY & YIELD

"In this world, nothing can be certain except death and taxes."

– Benjamin Franklin, November 13, 1789

What was true for Ben Franklin 236 years ago is true today: certainties are few and far between. When it comes to investing, his advice also rings true, and, as an industry, we go to great lengths to disclose the uncertainties and risks that investors face in financial markets. Recently, we asked financial advisors about their clients' top concerns regarding municipal bonds. At the top of the list: **fear of losing money**. That's unfortunate.

The financial world can be volatile and complex, creating uncertainty for investors. Can this uncertainty be tamed if there were an investment that would achieve its goal nearly every time? Unfortunately, there are no 100% guarantees with any investment choice, but very, very close! Reducing risk can help to calm investor fear. Undoubtedly, many investors would appreciate the reliability of individual investment-grade municipal bonds.



Concerns about financial losses generally refer to the possibility that an issuer will default (i.e., be unable to repay its debt). Despite the greatest of intentions, due diligence, and minuscule default rates, it has happened. Several high-profile cases over the last 50 years include Detroit, Michigan; Puerto Rico; Stockton, California; and Jefferson County, Alabama Sewer Authority. The few exceptions that occur over long periods can, unfortunately, create a negative bias toward a very reliable sector.

Today, more than 12,000 municipal issuers are rated by Moody's. A vast majority of Moody's rated issuers (98.3%) are rated investment-grade between Aaa and Baa3. Of those, 60% (~7,400) are rated in the top two categories of Aaa and Aa.

Moody's-rated, investment-grade municipal bonds carry a 10-year cumulative default rate of 0.06%, meaning

Municipals: Cumulative default rates, average over time 2015 - 2024

Rating	Average cohort count	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Aaa	817	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aa	6,860	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A	4,620	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.02%
Baa	878	0.03%	0.06%	0.10%	0.14%	0.17%	0.25%	0.42%	0.57%	0.74%	1.01%
Investment-grade	13,174	0.00%	0.00%	0.01%	0.01%	0.01%	0.02%	0.02%	0.03%	0.05%	0.06%
Speculative-grade	193	1.04%	2.02%	2.60%	2.84%	3.11%	3.34%	3.34%	3.34%	3.34%	3.34%
All rated	13,367	0.02%	0.03%	0.04%	0.05%	0.05%	0.06%	0.07%	0.08%	0.09%	0.10%

Sources: Moody's Annual Default Study; Raymond James

99.4% of the issuers have not defaulted. Furthermore, based on Moody's data from 1970 to 2024, the estimated median recovery rate on defaulted issues was ~75%.

Moody's tracks defaults by rating category over time. Although a large percentage of municipal investors buy and hold bonds until maturity, it does not mean they cannot be sold before that. A 10-year cumulative default rate indicates expected results when bonds are held to maturity, regardless of current information. In other words, defaults rarely come out of nowhere. Financial deterioration often occurs over long periods, usually giving credit-conservative investors time to exit troubled credits. Bonds sold before maturity are subject to current market prices. Troubled credits will likely see a price decline that could worsen if the institution's financial deterioration deepens.

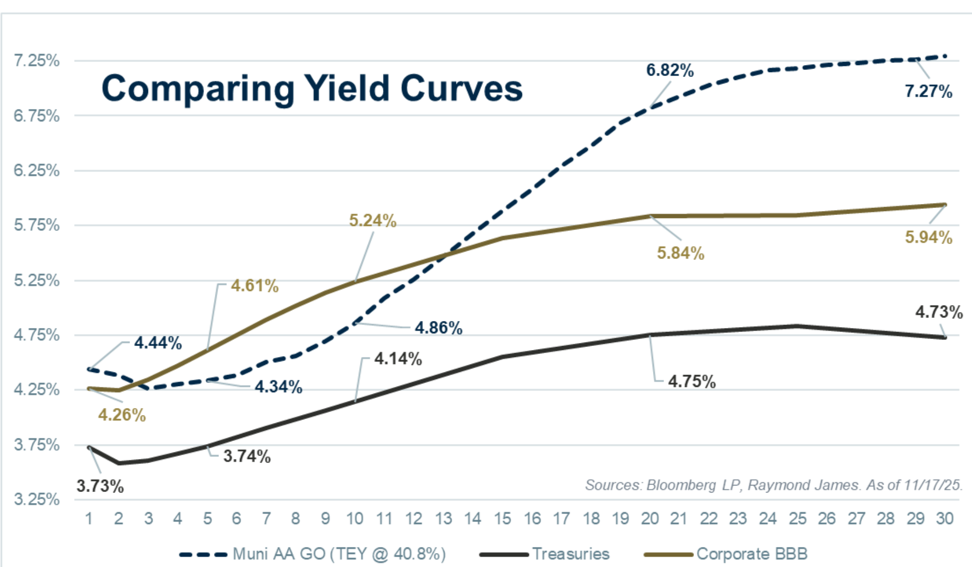
Moody's 10-year cumulative default rate for Aa and Aaa-rated municipal bonds over the time frame in the chart above is 0.00%. The reliability of investment-grade municipal bonds is nothing short of impressive. Of course, past performance is not a guarantee of future results, but a 10-year cumulative non-default rate of 99.94% for investment-grade municipal bonds can offer reassurance to most investors. This overall performance record extends back 50 years and puts individual bonds in a coveted category: "wealth preservation assets."

CONSTRUCTING A FIXED INCOME PORTFOLIO

A portfolio of individual bonds can be a powerful tool for investor planning. Bonds provide known cash flows, maturity dates, and redemption values, which are key elements that bring clarity to a long-term financial plan. This transparency, paired with the ability to customize holdings with a level of precision difficult to achieve in other fixed-income investment vehicles, makes individual bonds a strong foundation for financial planning. However, optimizing these benefits requires thoughtful upfront design to ensure the portfolio aligns with an investor's goals, preferences, and objectives while remaining within appropriate risk parameters. The following discussion offers key considerations to guide that process.

The first question that needs to be answered is: **Why?** Why is this investment being made? Does it need to provide liquidity on a specific date in the future? Perhaps there is a planned home purchase or a plan to pay for a grandchild's college tuition down the road. Identifying these needs ensures that the portfolio's maturity profile aligns with the dates when funds are needed. Is there a specific cash flow need? If a regular cash flow schedule is required, as is common in retirement, a portfolio can be structured to deliver predictable cash flows at pre-determined intervals. In other cases, the fixed income allocation may serve a long-term financial objective without defined cash flow or liquidity needs.

Once the purpose has been defined, the next step is to **identify investor-specific details**. Is the investment being made in a qualified or non-qualified account? Or within a trust with future beneficiaries? These factors can influence product selection and position sizing. What is both the current tax bracket, and projected future tax bracket? The current tax situation is essential, but so is the future expected tax bracket. It is not uncommon for high earners in the top tax bracket to fall into a much lower bracket upon retirement as they shift to living off investment income. State of residence, as well as future plans to relocate, are also important considerations. After these factors are defined, determining an appropriate risk profile is essential. Every investment involves risk; understanding the various types of risk (interest rate, reinvestment, credit risk, etc.) and determining what level of each you are comfortable with will guide portfolio construction. Finally, individual preferences, such as state or sector exposure, can be incorporated. Constructing a portfolio of individual bonds allows for customization at a very granular level, which is one of the advantages of using individual bonds rather than buying into cookie-cutter products that generally don't offer the same level of investor-specific customization.

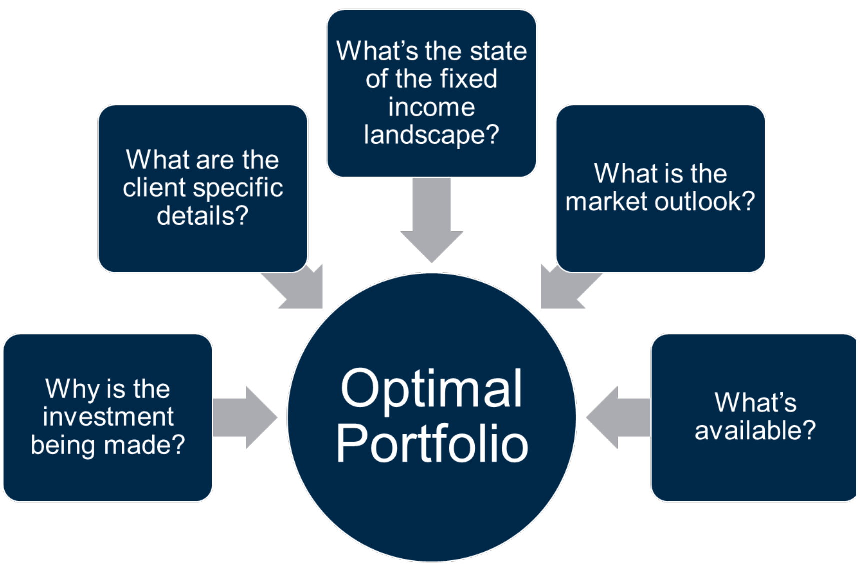


With investor-specific details identified, the next step is to assess the fixed-income **landscape**. Your financial advisor and the Fixed Income Solutions team at Raymond James can provide expertise and analysis of the current state of the fixed-income market. General market conditions and yield levels, shapes of the various yield curves, and relative value across different products should all be factored in.

The chart provides insight into the current state of the market. It depicts the Treasury curve, the BBB corporate curve, and the AA municipal curve on a taxable-equivalent yield basis, allowing investors to see the slopes of the curves, the yield levels offered by the various asset classes, and their relationship. In the constantly changing fixed-income landscape, incorporating an up-to-date bond market analysis is an essential step toward an appropriate portfolio structure.

In addition to identifying the current state of the bond market, **it is essential to consider potential future changes across the landscape**. While predicting the future and basing investment decisions entirely on these predictions is unlikely to be beneficial for constructing a fixed-income portfolio in the long run, being aware of general market sentiment and outlook can help inform appropriate decisions. The outlook for FOMC policy, growth and inflation forecasts, and product- and sector-specific trends are just a few of the considerations that might affect how an investor positions their portfolio. While we would caution against putting too much weight on anyone's predictions, it is essential to stay aware of market expectations, as investors are forward-looking and markets often react today to what they believe will happen tomorrow.

Finally, investors must **account for market availability**. Bonds trade in an over-the-counter market, meaning that there is no central exchange to purchase a specific bond at any given time, there must be someone offering that bond for sale. While availability across the investment-grade fixed income market is generally good, under certain market conditions, if looking for a particular investment, there may not be availability that meets the exact criteria. Identifying market availability and combining this information with the other portfolio-specific details outlined above will allow an investor to determine an optimal, actionable portfolio.



Constructing an optimal bond portfolio requires balancing personal goals with current market conditions. From understanding why the investment is being made and defining investor-specific details to assessing the current fixed income landscape, the process of constructing a custom-built bond portfolio involves planning and analysis. This ideally provides a solution that lines up with long-term goals while balancing investor-specific preferences and risk tolerance.

MATURITY CONSIDERATIONS

Buying a bond that matures in 10 years is a fundamentally different investment from purchasing a packaged product with an average maturity of 10 years. With the individual bond, an investor knows precisely when and how much principal will be returned. The packaged product continually buys and sells bonds to maintain a 10-year average maturity. So, 10 years from now, it still holds bonds with an average maturity of 10 years. While the 10-year bond provides a known return of principal 10 years from now, the packaged product has chosen to continually operate around the 10-year part of the curve (on average) to maximize total return, which it may continue to do in perpetuity. Essentially, the packaged product is a total return vehicle that has elected the 10-year part of the curve as its sandbox for pursuing total return. While both may appear to be similar "10-year" fixed income investments, they are fundamentally different: individual bonds provide a fixed stream of cash flow with a known redemption date and value, whereas packaged products pursue total return within the targeted maturity range.*

For investors who have previously used packaged products for their fixed income allocation but are considering a portfolio of individual bonds, it is essential to reframe how they think about maturity ranges, especially what is considered conservative. In the packaged product universe, short-term holdings are generally viewed as more conservative, while longer-term products are seen as more aggressive. This view is based primarily on interest rate risk: shorter-duration products are less sensitive to rate changes, while longer-duration products are more sensitive and therefore more volatile. For perpetual packaged products, maturity characteristics directly determine volatility. A product with a 2-year average maturity and one with a 15-year average maturity will both never mature; their chosen maturity windows define their exposure to interest rate movements. In this context, all else equal, a shorter maturity packaged product would be considered more conservative.

However, this logic doesn't translate directly into individual bonds. A 2-year bond will mature and return principal in 2 years, requiring reinvestment. For buy-and-hold investors, near-term maturities aren't necessarily less risky because reinvestment risk increases. With individual bonds, shorter maturities must be continually reinvested, potentially at lower yields if rates decline. Purchasing bonds with longer maturities locks in yields and reduces reinvestment risk in a falling-rate environment. In an environment where yields are expected to fall, a longer-term portfolio might be considered more conservative given the reduced reinvestment risk. Conversely, if rates are expected to rise, shorter maturities may be advantageous, as reinvestment can occur at higher yields. In staying short, an investor is trading interest rate risk for reinvestment risk. Ultimately, where an investor positions on their curve within an individual bond portfolio should reflect both their time horizon and their outlook for future interest rates.

*This is a hypothetical example assuming a perpetual packaged product that is constrained to target a specific average maturity.

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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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 extensive Raymond James' Fixed Income Capital Markets Group with 41 fixed income locations and more than 450 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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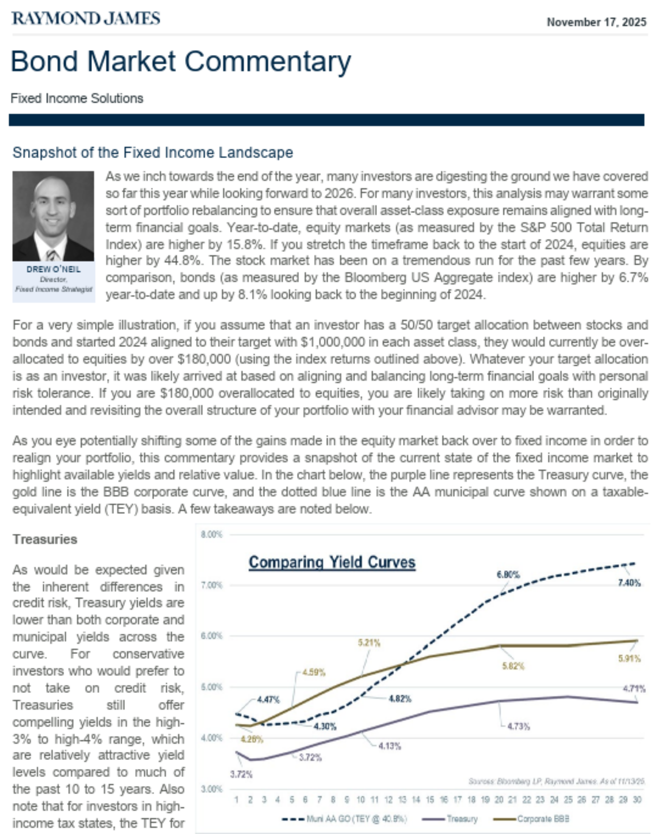
INVESTMENT TYPES/EXPERTISE INCLUDE

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



RAYMOND JAMES

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Bond Market Commentary

Fixed Income Solutions

Snapshot of the Fixed Income Landscape

DREW O'NEIL
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As we inch towards the end of the year, many investors are digesting the ground we have covered so far this year while looking forward to 2026. For many investors, this analysis may warrant some sort of portfolio rebalancing to ensure that overall asset-class exposure remains aligned with long-term financial goals. Year-to-date, equity markets (as measured by the S&P 500 Total Return Index) are higher by 15.8%. If you stretch the timeframe back to the start of 2024, equities are higher by 44.8%. The stock market has been on a tremendous run for the past few years. By comparison, bonds (as measured by the Bloomberg US Aggregate index) are higher by 6.7% year-to-date and up by 8.1% looking back to the beginning of 2024.

For a very simple illustration, if you assume that an investor has a 50/50 target allocation between stocks and bonds and started 2024 aligned to their target with $1,000,000 in each asset class, they would currently be over-allocated to equities by over $180,000 (using the index returns outlined above). Whatever your target allocation is as an investor, it was likely arrived at based on aligning and balancing long-term financial goals with personal risk tolerance. If you are $180,000 overallocated to equities, you are likely taking on more risk than originally intended and revisiting the overall structure of your portfolio with your financial advisor may be warranted.

As you eye potentially shifting some of the gains made in the equity market back over to fixed income in order to realign your portfolio, this commentary provides a snapshot of the current state of the fixed income market to highlight available yields and relative value. In the chart below, the purple line represents the Treasury curve, the gold line is the BBB corporate curve, and the dotted blue line is the AA municipal curve shown on a taxable-equivalent yield (TEY) basis. A few takeaways are noted below.

Treasuries

As would be expected given the inherent differences in credit risk, Treasury yields are lower than both corporate and municipal yields across the curve. For conservative investors who would prefer to not take on credit risk, Treasuries still offer compelling yields in the high-3% to high-4% range, which are relatively attractive yield levels compared to much of the past 10 to 15 years. Also note that for investors in high-income tax states, the TEY for

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

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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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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