Fixed Income Quarterly

Market Perspectives from Fixed Income Solutions

Fixed Income Matters

As the new year and the new Washington administration take hold, there are plenty of topics to highlight, but none more influential for fixed-income investors than yield. Income is king right now, prompting our focus on how to take advantage of today's rate environment. However, we'd feel remiss if we didn't pause to emphasize that true fixed income often helps preserve wealth as a primary purpose.

The last year and half provide the best yields seen over the last 17 years. Therefore, shifting that primary purpose from wealth preservation to wealth building can be justified. Fortunately, we believe both can coexist under the current rate environment, and we will choose to emphasize bond characteristics that favor wealth preservation alongside income.

At Raymond James, the focus on customized portfolios ensures that clients receive personalized investment strategies tailored to their unique goals and needs. This helps clients maximize investment potential and achieve financial objectives more effectively. Through custom portfolios, Raymond James strives for a commitment to providing exceptional value and personalized service to its clients.

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For those who have never had their fixed income allocation analyzed, we encourage you to do so while there are that could improve your overall investment portfolio position. Fixed income often involves long-term planning that mitigates risks through diversification. We are committed to discussing coupon choice, cash flow needs, interest/dividends, callability, credit risks, and tradeoffs. Enjoy the ride as we explore current ways to exploit what the bond market is offering.

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CASH FLOW & INCOME

Cash flow and income (yield) represent two important features for bond investors shaping their long-term investment strategies. However, cash flow and income sometimes get commingled, potentially creating confusion. Cash flow and yield are two different bond attributes.

Ultimately, investors seek as much income (yield) as possible within risk profiles. Yield is what you earn on your total investment. Cash flow represents the dollars received based on the coupon of the bond. If $1,000 is invested and $1,050 is returned after one year, an investor yields $50 in income or earns a 5% return (50÷1000). If $1,000 is invested and $1,050 is returned after two years, an investor still earns $50 in income. However, they earn a yield of 2.5% ((50÷1,000) ÷2). Yields are quoted in annual figures. If you earn the same amount of money in half the time, your yield is higher since your capital is being used for a shorter period. Yield calculations are computed on an annualized basis so that investors can fairly compare options side-by-side.

CASH FLOW OR INCOME?

- Cash flow and income (yield) are not the same.
- Coupon creates cash flow.
- Coupon, Price & Maturity determine the yield.
- If the goal is to maximize income, yield is the most important feature regardless of price.
- If periodic payments are important… coupon matters.

Investors expect a yield to be quoted as calculated above. The cash flow, which is usually a simple function of coupon times the number of bonds, is uniform; however, the yield is not often as simple and may be more or less than the cash flow. The arranged return of the initial capital invested plus the income earned may vary, but the premise remains intact. On day one, an investor outlays capital or "loans" out money to have that capital returned at maturity plus added interest at some point or many points along the invested timeline.

This illustration provides a detailed view of three similar yet different bonds. All three bonds are purchased

$25,000 Face Value Corporate Illustration

	--------Same Features--------			-------------Different Features-------------				Same
	Principal + Accrued	Yield	Maturity	Market Price	Face Value	Coupon	Interest + Reinvestment	Net Future Value
Discount	25,577	5.375%	3/13/2033	77.49	32,664	1.900%	6,577	39,241
Par	25,577	5.375%	3/13/2033	100.00	25,000	5.375%	14,241	39,241
Premium	25,577	5.375%	3/13/2033	105.84	23,561	6.300%	15,731	39,292

For illustrative purpose only. $25,000 face + accrued = $25,577; Sources: Bloomberg, Tradeweb, Raymond James

on the same day and mature eight years forward on the same maturity date. All three bonds are priced to yield 5.375% to maturity. To maintain a fair comparison, the same money is invested in each. This is where the front-end similarities end.

The coupons are very different. The lower coupon produces much less coupon cash flow. However, because it is a below-market coupon, the initial investment purchases more face value of the bond. The $32,664 face value is purchased for the $25,577. At maturity, the bond will provide $32,664 in face value plus interest earned during the holding period. Much of the income is back-ended.

Contrarily, the higher coupon bond provides a higher cash flow during the holding period. A premium is paid to attain these above-market cash flow payments. Since a premium is paid, the face value purchased is

lower versus the other two bonds, repaying $23,561 of face value at maturity. However, the difference is made up by the higher periodic cash flows.

The exact initial investment ($25,577) is made with each of the three bonds. During the holding period (eight years), the bonds behave differently, providing different cash flows to the investor. However, at maturity, the net cash flow received periodically over the holding period plus the face value received add up to nearly the same future net value for all three bonds. The net result will be the same if the initial cash outlay and yield are the same. How the principal and income come back varies.

If an investor's goal is to accumulate the largest amount of money at the end of a holding period, the most significant concern should center around the yield with indifference to whether a bond is priced at a discount, par, or premium. The potential for collecting the most income depends upon an individual bond's yield and is not driven solely by price.

"The potential for earning the most income depends upon an individual bond's yield and is not driven solely by price."

Changing market conditions can change the net future value of a portfolio because yield assumes reinvestment of cash flows. If interest rates are rising, receiving higher amounts of cash flow sooner is advantageous because it allows for more money to be reinvested at higher interest rates for longer. Conversely, less cash flow is desired if interest rates are falling, keeping capital working at the higher locked-in holding return.

Coupon decisions are not always monetarily based. The decision can center on an individual's situation. For example, a retiree who requires a defined cash flow for living expenses may not have the appropriate amount of principal to generate this income without spending a portion of the principal. Higher than market cash flows can be purchased through premium bonds to meet their needs. Over time, the invested principal is paid down via higher-than-market cash flow (coupons). Cash flow is comprised of both yield and return of principal that was paid in the premium above par. This is a planned and effective method to be utilized over retirement years. The opposite plan could be used when an investor has no or low cash flow needs. Discount bonds give up some or all current cash flow, building bigger value as the bond approaches its maturity date.

The use of interest plus a portion of principal is a valid strategy for creating the appropriate amount of cash flow in retirement.

All investors should strive to optimize their investments with regard to their personal needs and goals. This includes maximizing income, which can be achieved in a variety of ways and is dependent upon a myriad of personal differences, in which cash flow is a serious consideration. Knowing your cash flow requirements allows you to seek an ideal relationship between coupon and income.

INCOME PRODUCING ASSETS

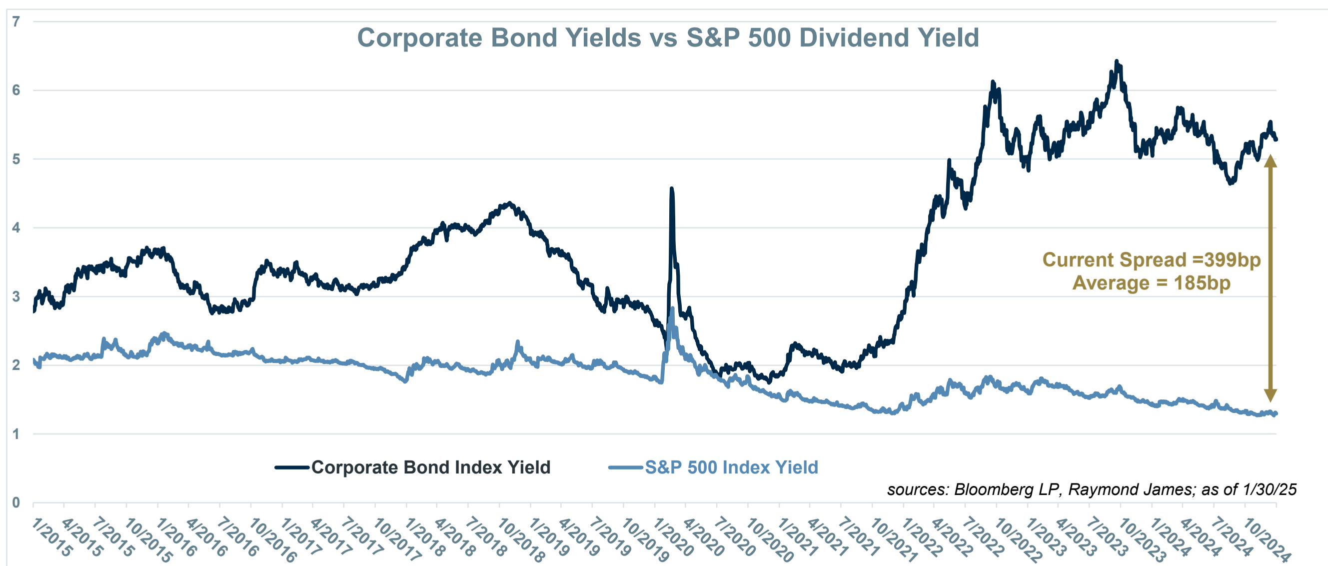
Two of the most popular investment strategies pursued by income-seeking investors are a portfolio of individual bonds and a portfolio of dividend-paying stocks. Dividend strategies can enjoy certain advantages, such as the potential for equity price appreciation and an outsized total return. They may also hold certain disadvantages, such as when a company pauses or terminates its dividend distribution. This can disrupt investors' plans that rely on certain income and cash flow levels to maintain a standard of living. Investors are also subject to a loss of principal should the price of the stock decline. One valuable characteristic of owning a portfolio of individual bonds is that the income stream is locked in from the date of purchase. An issuer cannot simply choose to stop making the coupon payments on their bonds. In addition, when buying high-quality investment-grade bonds, defaults are highly unlikely.

EQUITY DIVIDENDS OR BOND YIELD?

- Companies can increase, decrease, or suspend dividends any time they want.
- Bond coupons are typically locked in (fixed) and will continue to pay for the life of the bond regardless of outside changes.
- The current corporate yield of 5.28% is 399 basis points higher than the 1.29% S&P 500 dividend yield.

Bonds possess known characteristics such as fixed cash flows, known income streams, and a redemption value known to an investor from day one. In addition, for investors looking for income-producing strategies in the current market, fixed income offers a very compelling case from both an absolute yield perspective and a relative value perspective. Bonds offer a higher yield-entry point during the last year-and-half versus where yields have been offered during the previous 15 years or so. Using the 10-year Treasury as a benchmark, the current yield of 4.56% is higher than it has been for ~98% of the time since 2010. Turned around, on only ~2% of the days over the past ~15 years, has it been a more attractive time to lock in income.

The relative income value between equities and bonds compares the dividend yield of equities to the corporate bond yields. This chart reflects the dividend yield of the S&P 500 Index (light blue line) against the Bloomberg Investment-Grade Corporate Bond Index Yield (dark blue line) over the past ten years.



The relative value advantage for corporate bonds is clear. The current corporate bond yield of 5.28% is 399 basis points higher than the 1.29% S&P 500 dividend yield. Comparing these yields on an apples-to-apples basis comes with a range of challenges. However, the historical context of the spread is noteworthy. The

current 399 basis point spread is 214 basis points wider than the 185-basis point average spread since 2015. Income-seeking investors benefit from both a relative value and an absolute yield perspective.

CORPORATE VALUE

A vast majority of the investment-grade corporate bond market is either in the A or Baa-rated categories. Acknowledging that every investor's risk tolerance is unique, for many investors looking for a core taxable bond allocation, a portfolio of Baa-rated bonds is likely appropriate and provides the opportunity to maximize yield in a portfolio while still staying in the investment-grade category. While the spread between A-rated and Baa-rated bonds is at historically low levels, around 30 basis points, the yield pickup Baa-rated bonds provide can still be meaningful for investors. When combining yield pickup with a slight increase in credit risk, it is understandable why many investors rely on Baa-rated corporate bonds for their core bond allocation. According to Moody's, the 5-year average default rate for A-rated bonds from 2014 to 2023 was 0.19%, while for Baa-rated bonds, it was 1.02%. As expected, Baa-rated bonds defaulted at a higher rate than A-rated bonds, when choosing between a 99.81% non-default rate and a 98.98% non-default rate, the pickup in yield may be worth the minor increase in credit risk for many investors.

Corporate Cumulative Default Rate Average 2014-2023

	Year 1	Year 5
A-rated	0.03%	0.19%
Baa-rated	0.11%	1.02%

Non-Default Rate

	Year 1	Year 5
A-rated	99.97%	99.81%
Baa-rated	99.89%	98.98%

sources: Moody's Rating US Public Finance; Raymond James

CALLABILITY

A call option permits an issuer to buy back an outstanding bond before its stated maturity at a predetermined time and price. In return for accepting this optionality, investors often require a higher rate of return versus bonds that don't have a call feature. There are ways for an investor to capitalize on call features based on their own situation; however, call dates are not always exercised (absolute). Investors must concurrently evaluate a bond to its maturity as well as the call date when determining suitability.

Illustrative Large Bank Corporate Issue

Call Date	Maturity	Call-Yld	Mat-Yld
	1/15/2027		4.672%
1/31/2027	1/31/2033	5.280%	5.579%
	3/15/2033		5.034%

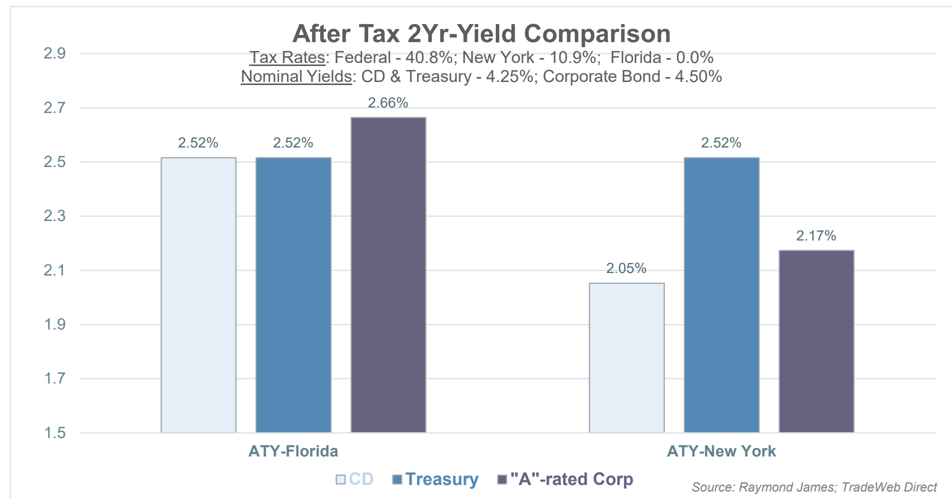
For Illustrative Purposes Only; Sources: Tradeweb, Raymond James

In the illustrative box to the left, a large bank issuer has three separate debt issues outstanding. An investor can purchase a non-callable bond maturing 1/15/2027 at a 4.672% yield. They also can buy a non-callable bond maturing on 3/15/2033 at a 5.034% yield. The third option would be a callable bond that matures on 1/31/2033 and is callable on 1/31/2027. The 5.28% yield to the 1/31/2027 call is better than the non-callable bond's 4.672% yield due 1/15/2027. If the bond is not called and it goes to maturity, the yield jumps to 5.579%. This yield is also better than the 5.034% earned by the non-callable maturity of 3/15/2033. In this scenario, an investor gains more income by taking on the call risk.

For some investors, however, giving up some yield for the purpose of locking into a known income for longer might make sense. This is especially relevant for investors who believe interest rates are likely to fall.

NET THE HIGHEST INCOME

Routines condition our minds. Whether it is the route to work or a method of communication, it is hard to break habits. The same can be said for investing. Often, a client may only want to buy CDs, or only buy tax-free bonds. For nonqualified accounts (an account that holds money that has already been taxed), it is imperative to look at the federal tax bracket and the state of residence to be able to make the best decision for that situation. The goal is to maximize after-tax income while meeting the credit quality standards that suit a particular situation.



Not all products are taxed the same way. Treasury securities are federally taxed, but they are not taxed at the state level. They are also the most liquid security, which can be a tactical consideration. All things equal, Treasuries boast several advantages; however, most fixed income products provide higher gross yields than Treasuries. Currently, opportunities within five years where it is possible for Treasuries to have a better after-tax yield versus municipal or corporate alternatives.

Most municipal bonds are not federally taxed but may or may not be taxed on the state level. Many states exempt in-state issues from taxes, making in-state municipal issues more advantageous to in-state investors. Also, each state has a very different tax level, making it necessary to calculate after-tax equivalent yield comparisons between products. These choices need to be considered in every situation with nonqualified accounts. The municipal curve has remained at a steeper upward slope relative to other product curves. Therefore, many high-income opportunities exist for investors, especially those in the highest federal tax brackets, willing to explore longer maturities.

MUNICIPAL BOND AVAILABILITY

The overall size of the municipal bond market is over $4 trillion. While this is a very large market, an investor's personal situation, combined with the nuances of the municipal bond market, can sometimes make it feel much smaller. Investor preferences such as coupon, maturity, call structure, and issuing state can shrink the available choice to a limited number of bonds. There is a significant benefit for investors living in states with high-income taxes to purchase municipal issues from their own state, thus avoid state as well as federal taxes. Still, there are many situations where an investor might be better served looking for opportunities nationwide rather than isolating themselves to their home state.

Municipal bond availability and the state tax are two of the primary factors used to evaluate the use of in-state or national issues. The chart identifies each state's highest tax rate and the total bonds outstanding. Although the $4 trillion municipal market provides a wide range of opportunities, tight personal criteria can eliminate as much as 97%-99% of the total market. For example, Iowa only has ~$26.4 billion in bonds outstanding or just 0.7% of the total market. Searching for only Iowa bonds eliminates 99.3% of the market.

Considering both the state tax rate and the availability can provide a reasonable roadmap for identifying municipal bonds. The lower the state tax rate and the lower the number of total bonds outstanding, the more likely that exploring bonds outside of your home state might improve net results. Arizona, for example, has a low state tax rate of 2.5% and only 1.5% of the total bonds outstanding. Looking beyond Arizona-issued bonds opens opportunities. Oftentimes, higher yields for out-of-state bonds more than offset the in-state tax savings gained by purchasing in-state issues.

Conversely, investors living in states with high state income taxes are more likely to benefit from in-state issues. A California investor subject to a 13.3% state tax, is likely best served by sticking with California bonds. California also boasts $642 billion bonds outstanding making availability more likely.

Your financial advisor and Fixed Income Solutions associate will consider your situation and most advantageous options for in-state or also out-of-state issues, diversification and income.

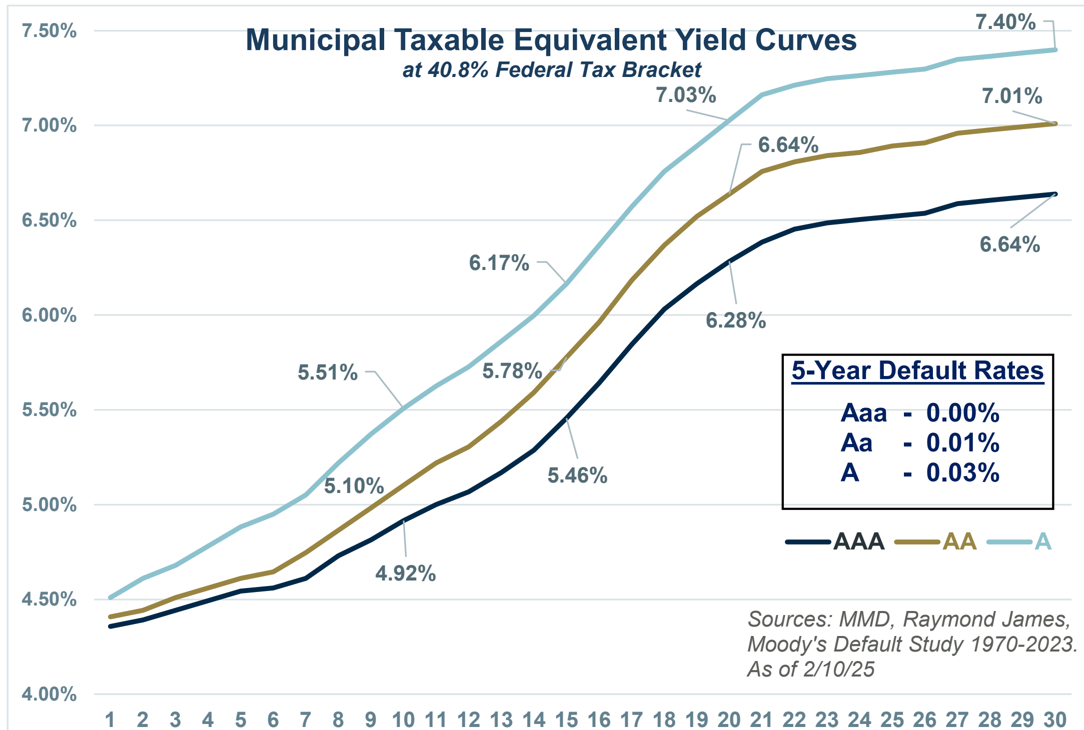
Raymond James is not a tax advisor and does not give tax advice. Please consult a tax professional prior to making any investment decisions.

	Municipal Bonds Outstanding ($ billions)	Percent of Total	Top State Income Tax Rate
AK	8.9	0.2%	0.00%
AL	60.0	1.5%	5.00%
AR	16.7	0.4%	4.40%
AZ	61.6	1.5%	2.50%
CA	642.2	16.0%	13.30%
CO	89.7	2.2%	4.40%
CT	56.7	1.4%	6.99%
DC	39.6	1.0%	10.75%
DE	9.4	0.2%	6.60%
FL	163.7	4.1%	0.00%
GA	86.6	2.2%	5.49%
HI	21.7	0.5%	11.00%
IA	26.4	0.7%	3.80%
ID	9.6	0.2%	5.80%
IL	153.8	3.8%	4.95%
IN	52.6	1.3%	3.00%
KS	23.4	0.6%	5.70%
KY	38.9	1.0%	4.00%
LA	40.2	1.0%	3.00%
MA	113.8	2.8%	9.00%
MD	63.4	1.6%	5.75%
ME	9.7	0.2%	7.15%
MI	85.7	2.1%	4.25%
MN	60.8	1.5%	9.85%
MO	50.3	1.3%	4.70%
MS	16.4	0.4%	4.40%
MT	5.0	0.1%	5.90%
NC	51.2	1.3%	4.25%
ND	9.1	0.2%	2.50%
NE	24.2	0.6%	5.20%
NH	18.0	0.4%	0.00%
NJ	114.3	2.9%	10.75%
NM	12.8	0.3%	5.90%
NV	27.3	0.7%	0.00%
NY	465.4	11.6%	10.90%
OH	101.4	2.5%	3.50%
OK	29.5	0.7%	4.75%
OR	49.9	1.2%	9.90%
PA	141.9	3.5%	3.07%
PR	63.9	1.6%	
RI	14.0	0.4%	5.99%
SC	44.8	1.1%	6.40%
SD	7.4	0.2%	0.00%
TN	50.2	1.3%	0.00%
TX	474.0	11.8%	0.00%
UT	30.4	0.8%	4.65%
VA	79.5	2.0%	5.75%
VT	4.0	0.1%	8.75%
WA	90.6	2.3%	0.00%
WI	80.5	2.0%	7.65%
WV	11.5	0.3%	4.82%
WY	2.2	0.1%	0.00%

Sources: Bloomberg LP, taxfoundation.org, Raymond James

ACROSS THE MUNICIPAL BOND SPECTRUM

Credit risk plays a role in bond selection. Understanding the differences in bond ratings will help determine which credit ratings to target. The overall credit status of the municipal bond market is high. A vast majority of municipal bonds are rated between A and Aaa. This works well since many investors seek a low-risk profile with this allocation of their investment portfolio. This low-risk sector plays an important role in wealth preservation. The current interest rate environment provides the possibility of improving income while maintaining high-quality holdings.



The A, Aa, and Aaa-rated municipal bond curves are displayed on a taxable-equivalent yield basis. This provides some context around the yields available across the municipal market as well as the differences in yield that can be expected across the range of credit quality. Notably, there is a significant spread between the A and Aaa bonds on the longer end of the curve. Exchanging Aaa-rated bonds for A-rated bonds increases the taxable equivalent yield by ~75 basis points, which is a fairly significant yield pick-up. A-rated bonds are, by definition, more of a credit risk than Aaa-rated bonds. However, the default rates highlighted in the chart reflect that the differences are historically minuscule. Aaa rated bonds defaulted 0.00% of the time, while A rated bonds defaulted 0.03% over a rolling five year period covering the past 50+ years. Flipping that default rate around, A rated bonds ***didn't*** default 99.97% of the time. For many investors, the 75 basis point pickup can be well worth the slight increase in credit risk. Regardless of the credit quality that one is willing to take, there are opportunities across the municipal landscape for investors to lock in yields that have rarely been available over the past 15+ years in the investment-grade space.

MUNICIPAL BOND INSURANCE

In 2025, the municipal bond insurance industry looks dramatically different than 20 years ago. The Bond Buyer reported a total of $41 billion of insured, municipal bonds issued in 2024. This represents ~8% of the total municipal issuance but the highest insured level since the 2008 Great Recession. In comparison, nearly 50% of all new municipal bond issues were insured in 2005. There are only two bond insurers actively insuring new municipal bond issues in the market today. Assured Guaranty is rated A1 by Moody's and AA by S&P. Build America Mutual (BAM) is rated AA by S&P, their only rating company.

MUNICIPAL BOND INSURANCE

- Only ~8% of newly issued municipal bonds are insured in 2024. In 2005, nearly 50% of new issues were insured.
- Build America Mutual (BAM) and Assured Guaranty (AGO) are the only two active insurers today.
- MBIA and AMBAC remain active with claims-paying means despite not actively insuring new issues.

Before bond insurance coverage plummeted to single-digit levels, the primary bond insurers were MBIA, AMBAC, FGIC, and Assured Guaranty. Each company earned the highest ratings from either Moody's (Aaa), Standard and Poor's (AAA), or both. The bond insurance market collapsed after the 2008 Great Financial Crisis, when the leading bond insurers, MBIA and AMBAC, lost their AAA/Aaa ratings. AMBAC later declared bankruptcy and was forced into rehabilitation by the NY State Insurance Commission while continuing to pay claims on defaulted obligations.

Assured Guaranty is the only "legacy" municipal bond insurer that continues to insure public finance bonds and provide financial guarantees outside the US municipal market. Assured Guaranty Ltd is a publicly traded corporation (AGO). According to their quarterly (9/30/24) report, AGO has claims-paying resources of $8.6 billion on a net par value outstanding of $258 billion. Assured Guaranty has played an active role in the global settlements surrounding insured bonds issued by Puerto Rico entities. It reports a remaining exposure to Puerto Rico Electric Authority of ~$531 million.

Build American Mutual (BAM) was formed in 2012 as a mutual insurance company and insures only US municipal bonds. BAM reports insured gross par value exposure of ~$108 billion and claims-paying resources of $1.5 billion (12/31/23).

Neither MBIA (and its National Public Finance Guarantee subsidiary) nor AMBAC are active insurers of municipal bonds. Approximately $26 billion par value of "legacy" municipal bonds carry MBIA or National insurance, including nearly $500 million of outstanding exposure to the defaulted Puerto Rico Electric Authority, which remains in a bankruptcy-like proceeding. The company reported claims-paying resources of $1.6 billion. AMBAC reports legacy financial guarantee exposure (both public finance and structured finance) of $27 billion and claims-paying resources of $2.7 billion.

While insurance can provide an additional layer of investor protection, a bond's underlying credit should be analyzed as well. Insurance companies' width of coverage and claims-paying ability help to identify their sustainability, while the bond's underlying credit helps to identify the municipality's financial health.

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. Listed below are attributes that illustrate how various products may work within a portfolio.

- Identify acceptable risk factors.
- 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.
PREFERRED SECURITIES	Appeal to investors seeking higher yields and/or high cash flow	This may benefit the portfolio as a higher yielding component with more risk versus true fixed income alternatives.	Preferred's are subordinate to debt securities but placed ahead of common stock in the corporate structure. Being perpetual or very long dated exposes them to increased price volatility. Not a hold-to-maturity alternative.
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 larger 14-person Fixed Income Solutions group within the Raymond James' Fixed Income Capital Markets Group's 43 fixed income locations with more than 500 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 February 18, 2025

Bond Market Commentary

Fixed Income Solutions

Know What You Own

DOUG DRABIK
Managing Director, Fixed Income Strategist

"Know what you own" is one of the many phrases we use to help describe and define fixed income, the components of bonds, and the characteristics that affect an investor. They emphasize the benefits of owning a portfolio of individual bonds compared to other fixed income options. It may appear simplistic, but it reminds me of my past grade school teacher's quote, "All blue jays are birds, but all birds are not blue jays." You're probably not as dazzled as I was, but it can serve as a good reminder that a strategically designed investment portfolio, with the right components, can help reach an intended goal while accommodating an investor's risk profile.

All individual bonds are fixed income products, but all fixed income products are not individual bonds. Understanding this concept will help shape your investment portfolio's fixed income allocation to achieve your ultimate goal better. First, however, let's reveal the various investment goals that may influence product selection.

For many of you, the primary purpose of fixed income is often to protect the wealth that has been accumulated to this point. This concept subsists whether interest rates are at 1% or 10%. This primary purpose can easily be overlooked when interest rates are elevated, such as they are today. Capturing income with fixed income can often be the secondary goal, so when there is a favorable income-producing rate environment, it is easy to forget about protecting wealth and concentrate solely on growing wealth. The problem is that economic environments change, creating very different outcomes for certain product selections.

If there is one bond characteristic that defines its ability to preserve wealth, it has a stated maturity date and value. A stated maturity makes interim price changes that can occur during a bond-holding period mere background noise, providing a known service over a known period for known results. When you purchase an individual bond and hold it until maturity, the interest earned is known, the cash flow stream is defined, and the date when the bond's face value is returned is stated. Only two events can prevent this from happening. One is a bond default. When purchasing high-quality, investment-grade bonds, this is a highly unlikely event. The other event that can prevent this is to sell an individual bond before maturity. In this case, an investor is subject to whatever market conditions exist at the time of sale. This could be a positive or a negative, depending on the market. By holding an individual bond to maturity, an investor knows that it will perform as intended every single day that it is held in the portfolio, regardless of any outside influences or interim price changes.

Know what you own. Different products provide different benefits and often accomplish this through varying degrees of risk. Funds with bonds do not benefit from stated maturities, thus subjecting an investor to price changes and principal deviations. Individual bonds possess a unique feature for wealth preservation that transcends them into a

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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