

Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions



NOREEN MCCLURE

*Director
Fixed Income Private Wealth*

THE WEEK AHEAD

1. Fed Chairman Powell left plenty of room for flexibility following his speech on Friday at the Jackson Hole Economic Conference. The FOMC meets again September 19 – 20.
2. Municipal supply is expected to be ~\$3 billion, much lower than last week's \$8 billion. Demand remains strong, likely keeping a lid on yields.
3. Fund outflows continue, with ~\$534 million last week, double the prior week.



DREW O'NEIL

*Director
Fixed Income Strategy*

MONDAY'S COMMENTARY

Back to School
Illustrative Portfolios

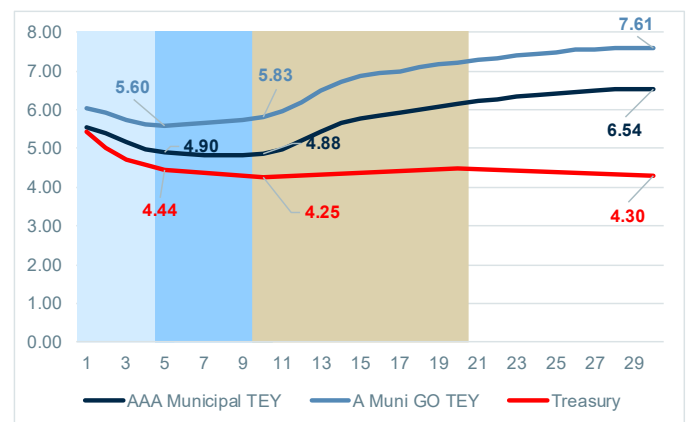
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THE NUMBERS THIS WEEK

Yields were mixed last week. Short-term Treasuries rose by 6 to 13 basis points while longer-term yields fell by 2 to 9 basis points. Yields in the municipal market rose across the board. The benchmark AAA municipal curve saw yields rise by 3 to 8 basis points.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2024	5.44	3.27	3.58	5.53	6.04	60%	102%
2	2025	5.03	3.18	3.50	5.38	5.91	63%	107%
5	2028	4.44	2.90	3.31	4.90	5.60	65%	110%
10	2033	4.25	2.89	3.45	4.88	5.83	68%	115%
20	2043	4.50	3.63	4.27	6.14	7.21	81%	136%
30	2053	4.30	3.87	4.50	6.54	7.61	90%	152%

*Taxable equivalent yield @ 40.8% tax rate



BACK TO SCHOOL

The school bell has already rung in Florida, but many around the country may be waiting for the school year to begin following the Labor Day weekend. No matter when the school doors open for the 2023 – 2024 year for your children / grandchildren, we wish all a very safe, healthy, and productive school year!

Here's a short lesson from fixed income: I thought this would be a great opportunity to share with our audience, some basic lessons, and attributes surrounding municipal bond investing.

Lesson # 1:

Why individual bonds vs. a bond fund? As simple as 1-2-3: 1) Permanence; 2) definition; and, 3) knowing what you own! The key characteristic of an individual bond is the set coupon, defining how much interest income will be generated on an annual basis. The defined maturity date and unique call features surrounding the individual bond are specified, this will not change. The yield to call / yield to maturity stated at the time of purchase will be your total return, assuming you hold the bond till it is called or matures. **The most important attribute of holding an individual bond is that no matter what interest rates do over the life of the bond you will always receive your regular coupon cash flow along with par back at maturity (barring any defaults).**

Lesson #2:

Individual bonds allow you to structure the maturities based on your personal financial needs. One of the most popular strategies is to create a ladder with bonds maturing over a specified period of time. It is important to reiterate, as my colleagues have done in this publication in the past few weeks, **DO NOT let attractive short-term rates take over your overall plan.** For some, it may be difficult to wrap your head around why would you want to purchase a longer-term bond when yields on short term rates are so attractive. That is a very practical statement, albeit it assumes things will remain the same. As history has taught us in previous financial cycles, interest rates will not remain this high, what goes up eventually will come down. Simply stated, we do not know how long short-term rates will remain this high. If you aggressively park your investments in all short-term investments, a year from now you may have some regrets! If interest rates are lower, some will wish that they locked in longer duration, forcing reinvestment at lower rates. The best alternative depending on your personal investment goals, is to ladder bonds out in different maturities ensuring opportunities along the municipal curve.

Lesson # 3

What I believe to be the most attractive attribute of individual municipal bonds is the tax efficiency.

Interest earned on municipal bonds are tax-exempt from Federal tax, additionally depending on what state an investor resides in they may be able to achieve state tax exemption as well. States have their own rules surrounding tax exemption on municipal bonds. For instance, a vast majority of states that have a state income tax, will allow tax exemption on earned income if they buy in state bonds. However, if they purchase bonds outside of their state, they will be subject to pay state income tax on the earned income. Then there are states that do not have a state income tax, those residents can purchase bonds in any state with no tax penalty at all. Lastly there are states that charge their residents tax no matter what bonds they purchase. **Your financial advisor can assist in navigating the most tax efficient investing based on your residency.**

Bonus Lesson!!

There are countless lessons we can share with investors pertaining to individual municipal bonds. Consideration of the asset class and understanding the benefits they provide for investors in high tax brackets is key to improving their overall portfolio performance. **The higher the tax bracket the more beneficial municipal bonds are for investors.** In past publications we have discussed taxable equivalent yield and how important it is to know the taxable equivalent of a municipal offering, to compare that to a taxable investment. **Currently a 20-year municipal**

bond yielding a 4% for an investor in a 37% Federal tax bracket plus the 3.8% Medicare tax would have a taxable equivalent yield of a 6.78% -- compare that to a Treasury 20 yield bond currently at a 4.48%. Municipal bonds are offering historic opportunities for investors, please reach out to your financial advisor and take advantage of the current environment.

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 20 years. Portfolio yields increased less than 10 basis points on the week as municipal bonds sold off, partially in response to volatility in the Treasury market. Strategically, for investors looking to lock in long-term, reliable tax-efficient cash flow, our duration focused 10–20 year maturity illustration continues to offer an excellent tax efficient solution. The average yield to worst is ~3.70%, which equates to a **taxable equivalent yield to worst of ~6.30%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield to maturity increases to ~4.00%, which equates to a **taxable equivalent yield to maturity of ~6.75%**. This is a solution with premium coupon bonds with an average coupon of 4.45% and a market price of ~\$105. The **current yield is ~4.25%**. An investment with \$1 million par value (\$1.06 million market value) will generate a federally tax-exempt annual coupon cash flow of ~\$44,500.

National Municipal Bond Illustrative Portfolios

Week of August 28th, 2023

1 – 10 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,038,534
Accrued Interest	\$10,175
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,048,710
Next 12mo Cpn Cash Flow	\$42,000
Generic Annual Cpn Cash Flow	\$42,000
Weighted Averages	
Coupon*	4.200%
Maturity**	5.36 yrs
Duration	3.61
Yield to Worst	3.281%
Yield to Maturity	3.428%
Market Price*	103.853
Tax Lots Holdings Included	20 of 20

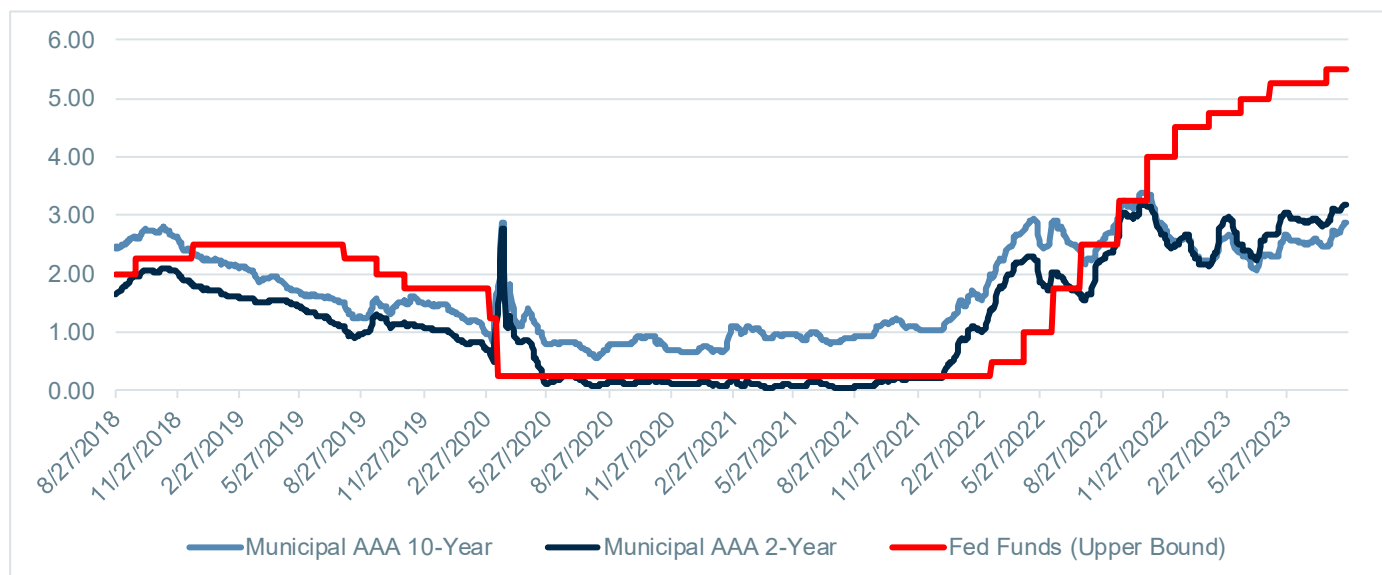
5 – 15 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,062,086
Accrued Interest	\$11,010
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,073,096
Next 12mo Cpn Cash Flow	\$44,500
Generic Annual Cpn Cash Flow	\$44,500
Weighted Averages	
Coupon*	4.450%
Maturity**	9.27 yrs
Duration	5.60
Yield to Worst	3.328%
Yield to Maturity	3.567%
Market Price*	106.209
Tax Lots Holdings Included	20 of 20

10 – 20 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,045,815
Accrued Interest	\$12,035
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,057,850
Next 12mo Cpn Cash Flow	\$44,500
Generic Annual Cpn Cash Flow	\$44,500
Weighted Averages	
Coupon*	4.450%
Maturity**	14.33 yrs
Duration	6.89
Yield to Worst	3.727%
Yield to Maturity	4.008%
Market Price*	104.582
Tax Lots Holdings Included	20 of 20

HISTORICAL YIELDS



NAVIGATING TODAY'S MARKET

A light new issue calendar is expected this week according to The Bond Buyer, as just under \$3 billion is projected to come to market. Some of the larger deals include: Jacksonville, FL (-/AA/AA-) is selling \$290 million of special revenue and refunding bonds; the Healthcare Authority of the City of Huntsville, AL (A1/-) is bringing a \$175 million deal to market; Lakeland, FL (-/AA/AA) is issuing \$155 million of energy system revenue and refunding bonds, and the Housing Authority of King County, WA (-/AA) is selling \$114 million of Kirkland Heights Project affordable housing revenue bonds. See table below for additional new issuance.

Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
8/28	\$8MM	Indiana Housing and Community	IN	Multifamily Housing Revenue Bonds,	Aaa / /	9/1/2028
8/29	\$50MM	Oklahoma Housing Finance	OK	Single Family Mortgage Revenue Bonds	Aaa /NR /NR	09/01/2024-
8/29	\$14MM	Nevada Housing Division	NV	Single Family Mortgage Revenue Bonds		
8/29	\$75MM	Nevada Housing Division	NV	Single Family Mortgage Revenue Bonds		
8/29	\$15MM	Colonial School District	PA	General Obligation Bonds, Series of 2023	Aaa /NR /NR	2/15/25-53
8/29	\$50MM	Brevard County, Florida	FL	Solid Waste Management System	A1 /AA+ /	9/1/25-53
8/30	\$10MM	William Penn School District	PA	General Obligation Bonds, Series of 2023	A1 /AA /	3/15/25-51
8/30	\$47MM	San Luis Obispo Public Finance	CA	Lease Revenue Bonds, (Cultural Arts	/AA /	12/01/2024-43,48,53
8/30	\$2MM	Oakwood Village (Cuyahoga	OH	Various Purpose Bond Anticipation Notes,	NR /SP1+ /NR	6/13/2024
8/30	\$4MM	Minnesota Housing Finance	MN	State Appropriation Bonds (Housing	Aa1 /AA+ /	08/01/2024-28
8/30	\$22MM	Minnesota Housing Finance	MN	State Appropriation Bonds (Housing	Aa1 /AA+ /	08/01/2028-44
8/30	\$31MM	City of Jacksonville, Florida	FL	Special Revenue Refunding Bonds, Series	NR /AA /AA-	10/1/24-26
8/30	\$259MM	City of Jacksonville, Florida	FL	Special Revenue and Refunding Bonds,	NR /AA /AA-	10/1/24-53

This offering calendar is for information purposes only, and is not intended as an offer for solicitation with respect to the purchase or sale of any securities. For more information on the new issues go to www.raymondjames.com.

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. 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.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody's and Standard and Poor's of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. 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.

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880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

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