



2023 FIXED INCOME: MARKET, PRODUCTS & SERVICES

BY MICHELLE ROGERS
DIRECTOR OF FIXED INCOME TRADING

THE MARKET

Yield Curve YTD



Year to Date Move

Curve	Date	Tax (%)
A) US Govt. Treasury Yields (BI550)	12/30/22	0.0
B) US Govt. Treasury Yields (BI550)	09/01/23	0.0

Term	A	B	Spread (+/- BPs)	Spread (%)
	Treasury 12/30/22	Treasury 9/1/23		
1 Yr	4.746	5.369	-62	88.4
2 Yr	4.492	4.889	-40	91.9
3 Yr	4.222	4.577	-36	92.3
4 Yr	4.105	4.423	-32	92.8
5 Yr	4.046	4.345	-29	93.1
7 Yr	3.972	4.260	-29	93.2
10 Yr	3.874	4.197	-33	92.3
15 Yr	3.938	4.289	-35	91.8
20 Yr	4.200	4.525	-33	92.8
25 Yr	4.139	4.451	-31	93.0
30 Yr	3.976	4.293	-31	92.6



World Interest Rate Probability Monitor: United States

Region: United States »

Target Rate 5.50

Effective Rate 5.33

Instrument: Fed Funds Futures »

Pricing Date

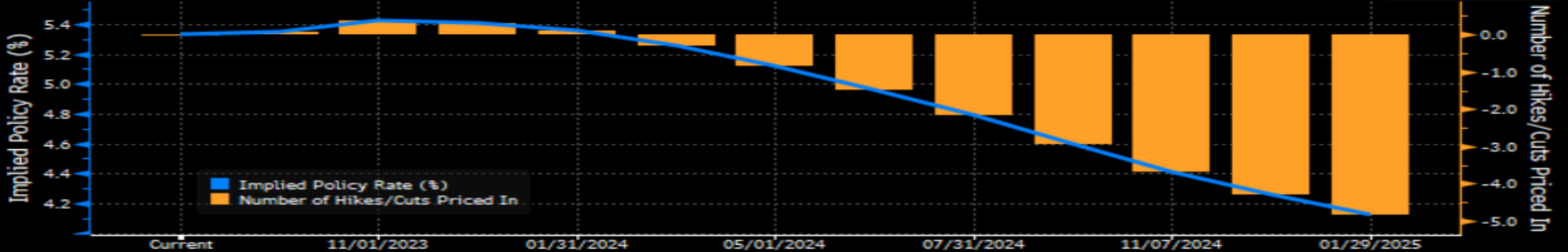
09/01/2023

Cur. Imp. O/N Rate

5.331

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
09/20/2023	+0.067	+6.8%	+0.017	5.347	0.250
11/01/2023	+0.378	+31.0%	+0.094	5.425	0.250
12/13/2023	+0.317	-6.1%	+0.079	5.410	0.250
01/31/2024	+0.108	-20.9%	+0.027	5.358	0.250
03/20/2024	-0.300	-40.7%	-0.075	5.256	0.250
05/01/2024	-0.829	-52.9%	-0.207	5.123	0.250
06/12/2024	-1.484	-65.4%	-0.371	4.960	0.250
07/31/2024	-2.163	-67.9%	-0.541	4.790	0.250
09/18/2024	-2.953	-79.0%	-0.738	4.593	0.250

Implied Overnight Rate & Number of Hikes/Cuts



Bond Yield Forecasts

Region		G7		Spread 2 Year - 10 Year								
	Rate	Mkt Yld	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
United States												
1)	US 30-Year	4.30	4.12	4.04	3.96	3.89	3.88	3.83	3.86	3.82	3.87	3.86
2)	US 10-Year	4.18	3.96	3.86	3.75	3.67	3.62	3.58	3.61	3.56	3.58	3.58
3)	US 5-Year	4.30	4.19	4.03	3.89	3.73	3.63	3.56	3.57	3.50	3.55	3.52
4)	US 2-Year	4.88	4.81	4.56	4.25	3.95	3.73	3.54	3.49	3.37	3.41	3.38
5)	US 3-Month Term SOFR	5.40	5.39	5.39	5.15	4.78	4.41	4.11	3.83	3.67	3.65	3.54
6)	Fed Funds Rate - Upper Bound	5.50	5.50	5.50	5.30	4.90	4.50	4.20	3.85	3.60	3.45	3.30
7)	Fed Funds Rate - Lower Bound	5.25	5.26	5.27	5.07	4.67	4.23	3.93	3.58	3.36	3.20	3.07
	2 Year - 10 Year Spread	-0.70	-0.85	-0.70	-0.51	-0.28	-0.11	0.04	0.12	0.19	0.17	0.20

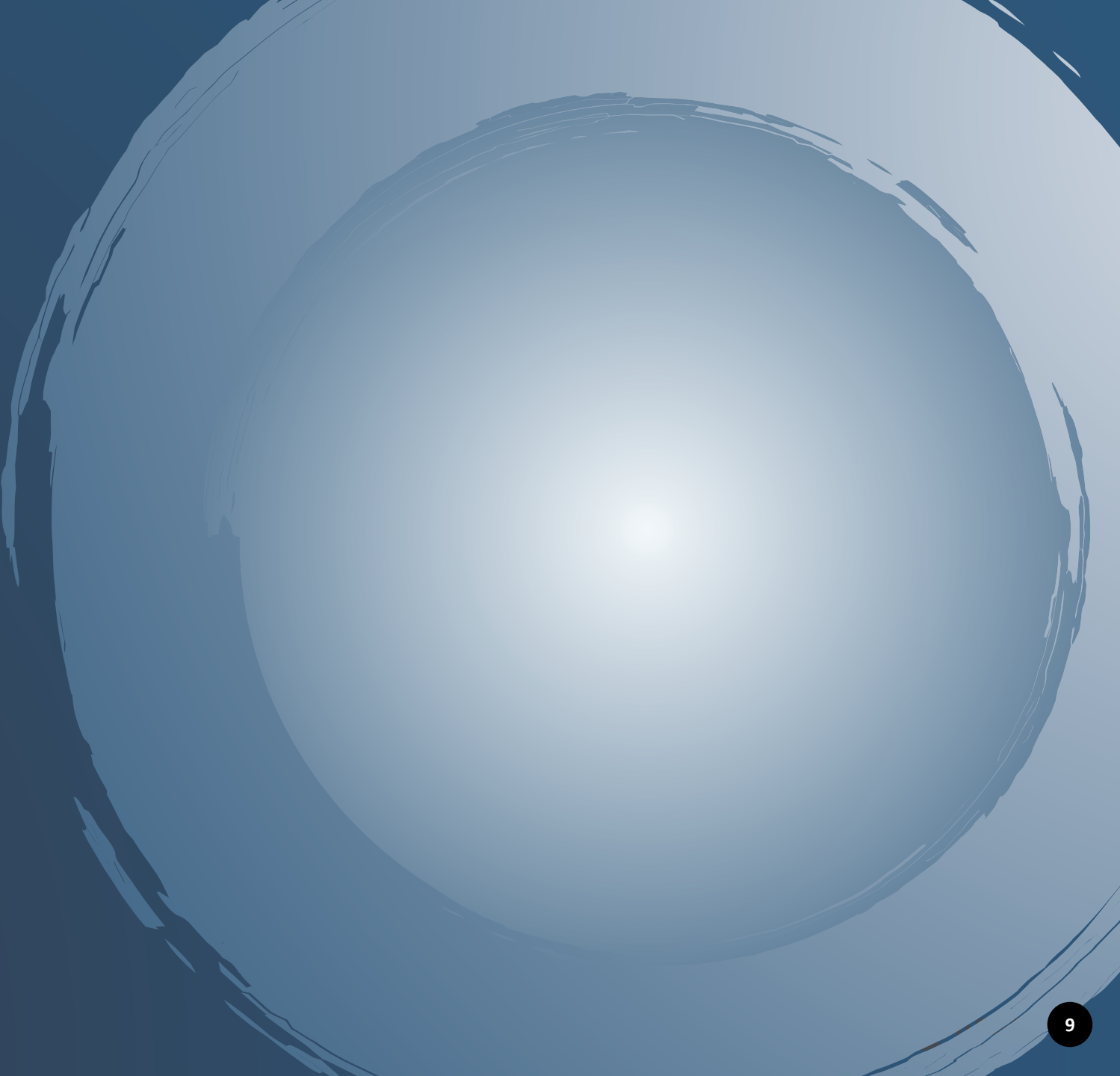
THE SECTORS

A large, glowing blue sphere with a bright white center, set against a dark blue background. The sphere has a textured, brush-stroke-like appearance on its surface.

KSI Fixed Income Products

- Brokered Certificates of Deposits (CDs)
- Treasuries/Agencies
- Municipals (Taxable + Tax-Exempt)
- Corporates (IG + HY)
- Structured Investment Products (SIP) MLCDs + Structured Notes

**FDIC/GOVT/
AGCY**



Brokered Certificates of Deposits

- Brokered CDs -FDIC insured
- Cash Alternative –short term ladder CD portfolio
- Current Rates (subject) 6 mo- 5 yr 5.35%-4.70%
- Over 30 Issuers available
- *Current Intermediate Term CD portfolio picks up about 30 bps in yield over treasuries.*
- Resources:
 - <https://research.fdic.gov/bankfind/>
 - <https://www.fdic.gov/deposit/deposits/faq.html>

US Treasury Securities

- A Treasury Bill (T-Bill) is a short-term debt obligation backed by the Treasury Department of the U.S. government with a maturity of less than one year, and are issued at a discount from par. They do not receive regular interest payments as with a coupon bond , but a T-Bill does include interest , reflected in the amount it pays when it matures.
- Treasury Note : Marketable U.S. government debt security with a fixed interest rate and a maturity between one and 10 years. Interest payments on the notes are made every six months until maturity.
- Treasury Bond - A Treasury bond (T-bond) is a marketable, fixed-interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semiannually
- Treasury STRIPS: sold at a significant discount to face value and offer no interest payments because they mature at par. Although you receive no tangible income, you typically still have to pay federal income tax on the bond's accretion for the year. All issues from the Treasury with a maturity of 10 years or longer are eligible for the STRIPS process.
- Treasury inflation protected securities (TIPS) refer to a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. Backed by the U.S. government and the par value rises with inflation, as measured by the Consumer Price Index, while the interest rate remains fixed. Interest is paid semiannually and are available with 5-, 10-, and 30-year maturities. The semiannual inflation adjustments of a TIPS bond are considered taxable income by the IRS, even though investors don't see that money until they sell the bond or it reaches maturity.
- Current yields range from 5.35-4.20%.

* Source, Bloomberg

Federal Agency Debt Securities:

- Agency securities are bonds issued by U.S. federal government agencies (other than the U.S. Treasury) or by GSEs. Most agency bonds pay a semiannual fixed coupon and are sold in a variety of increments. With the exception of bonds issued by Ginnie Mae, agency securities are not fully guaranteed by the U.S. government. The issuing agency will affect the strength of any guarantee provided on the agency bond. <https://www.finra.org/investors/investing/investment-products/bonds#types>
- **Government-Sponsored Enterprise (GSE)** A GSE is an enterprise that's chartered by Congress to fulfill a public purpose but is privately owned and operated, such as the Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Farm Credit Bank and Tennessee Valley Authority. Unlike bonds guaranteed by a government agency such as Ginnie Mae, those issued by GSEs carry the implicit backing of the U.S. government but are not a direct obligation, therefore are not backed by the "full faith and credit".
- Primarily GSE senior debt has a credit rating of AAA/AA+, and Fannie & Freddie subordinated debt is AA2/AA-.
- Agency securities currently pick up approximately 10-50 bps over treasuries, not accounting for any additional call feature compensation.

* Source, FINRA

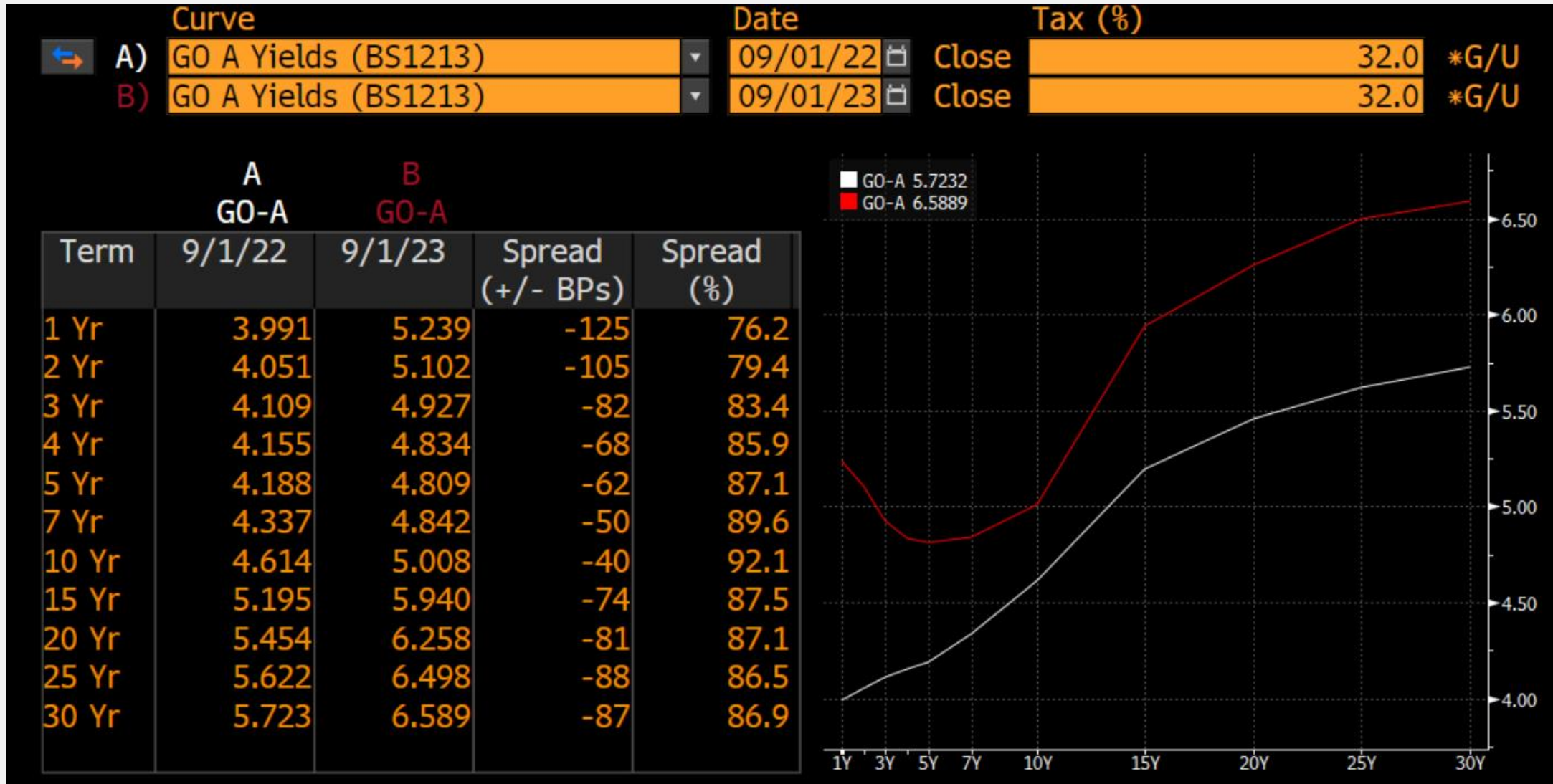
CREDIT: MUNICIPALS & CORPORATES



Municipal Bonds (T/E & Taxable)

- Municipal bonds are issued by states, cities, counties, towns villages, interstate authorities, intrastate authorities and U.S. territories, possessions and commonwealths to support their obligations and those of their agencies. They are generally backed by taxes or revenues received by the issuer
- Typically issued in 5,000 increments & pay interest semiannually
- Maturities Range from less than 1 year to 30 years
- On a net tax basis, tax-exempts are currently trading -15 to +40 to treasuries.
- Tax Exempts offer tax advantaged benefits
- Taxable Municipal Bonds are a good surrogate to corporates, as they do not exhibit positive correlation to equities.

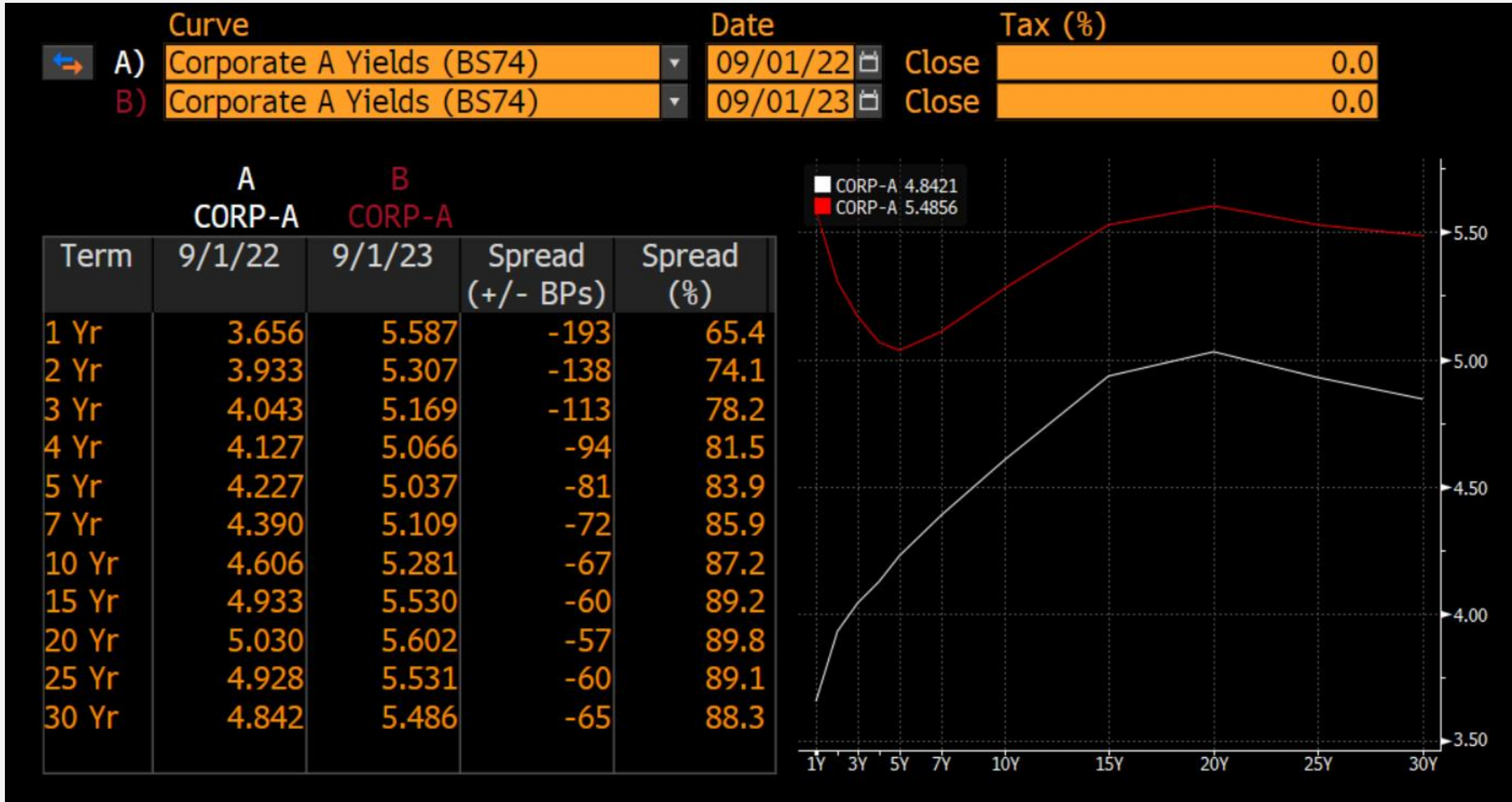
Muni A Yields (YoY)



Corporate Bonds

- Companies issue corporate bonds to raise money for capital expenditures, operations and acquisitions. Corporates are issued by all types of businesses and are segmented into major industry groups.
- Corporates exhibit a wide range of characteristics, such as, structure, coupon, coupon type, maturity, and credit quality.
- Most corporate bonds are issued with maturities ranging from one to 30 years.
- Classifications, including secured corporates, unsecured corporates, guaranteed and insured bonds and convertibles. A bond's classification depends on its relationship to a corporation's capital structure.
- Investment Grade Corporates currently pick up 15 to +100 to treasuries, on average.

Corporate Yields (YoY)



SECTOR YIELD TABLE

Sector Yield Table										
	CD	Tsy	Agcy	Corp (AA)	Corp (A)	Corp (BBB)	Corp HY (BB)	Muni (AA) TEY @ 32%	Muni (A) TEY @ 32%	Muni Taxable (A-Rev)
1 yr	5.350	5.369	5.405	5.429	5.587	5.983	6.850	4.971	5.2390	5.687
2 yr	5.100	4.889	4.951	5.130	5.307	5.788	6.830	4.854	5.1020	5.515
3yr	4.850	4.577	4.660	4.922	5.169	5.673	6.850	4.696	4.9270	5.353
5 yr	4.700	4.345	4.412	4.784	5.037	5.591	6.954	4.598	4.8090	5.275
7 yr	4.250	4.260	4.412	4.809	5.109	5.676	7.161	4.633	4.8420	5.260
10 yr	4.400	4.197	4.500	4.927	5.281	5.845	7.420	4.752	5.0080	5.275

CASH MANAGEMENT

VEHICLES & ACCOUNT TYPES

	CD	Tsy
1 mo	5.200	5.050
3 mo	5.350	5.150
6 mo	5.350	5.370
9 mo	5.350	5.350
1 yr	5.400	5.340

Sample Short Term Portfolios

TSY/ACGY/CD, S/T Brokerage (.3 SC)

Credit Taxable S/T Brokerage (.4 SC)

Buy Candidates Summary Statistics

Candidates Summary

Total Par Value	\$1,000,000.00
Total Principal Value	\$983,380.56
Principal + Accrued	\$984,857.89
12 Month Income	\$17,830.21
Est. YTW / Est. YTM	5.388% / 5.388%
Average Rating	Aaa / AA+
Average Coupon	2.324%
Average Maturity (Yrs)	0.63
Average Modified Duration	0.58
Average Redemption Date (Yrs)	0.58
Average Price	\$98.338

Product Summary

Municipals	0	\$0.00	-%
Corporates	0	\$0.00	-%
CDs	3	\$300,000.00	30.51%
Agencies	2	\$194,771.16	19.81%
Treasuries	5	\$488,609.40	49.69%
Structured Products	0	\$0.00	-%
MBS	0	\$0.00	-%
Cash	0	\$0.00	-%
Other	0	\$0.00	-%
Total	10	\$983,380.56	100.00%

Buy Candidates Summary Statistics

Candidates Summary

Total Par Value	\$1,050,000.00
Total Principal Value	\$1,032,585.75
Principal + Accrued	\$1,038,812.81
12 Month Income	\$27,607.00
Est. YTW / Est. YTM	5.555% / 5.555%
Average Rating	Aa3 / A+
Average Coupon	3.154%
Average Maturity (Yrs)	0.67
Average Modified Duration	0.65
Average Redemption Date (Yrs)	0.53
Average Price	\$98.341

Product Summary

Municipals	2	\$145,806.00	14.12%
Corporates	13	\$886,779.75	85.88%
CDs	0	\$0.00	-%
Agencies	0	\$0.00	-%
Treasuries	0	\$0.00	-%
Structured Products	0	\$0.00	-%
MBS	0	\$0.00	-%
Cash	0	\$0.00	-%
Other	0	\$0.00	-%
Total	15	\$1,032,585.75	100.00%

What to include for Fixed Income inquiries:

- Advisory or Brokerage
- Maturity Range
- Asset classes
- Credit quality
- Yield Target, if applicable
- Size
- Any limitations (such as premium caps)

The Purchase

How to sell a bond through the FI desk:

- Quantity
- Account information (to verify position)
- Double check there are no call/redemptions pending on the cusip
- Any special circumstances surrounding the client or the holding
- Brokerage/Advisory

The Sale

- Advisory/Brokerage
- Total Size
- Structure Type: Ladder, Barbell
- Asset Mix - subsectors
- Maturity Range or Avg Weighted Maturity
- Credit Threshold

Product Structuring

Building Portfolios: Sample Portfolios based on Fundamentals

Intermediate Term Corporate Portfolio

Candidates Summary	
Total Par Value	\$1,000,000.00
Total Principal Value	\$909,493.50
Principal + Accrued	\$917,077.44
12 Month Income	\$36,927.83
Est. YTW / Est. YTM	5.866% / 5.866%
Average Rating	A3 / A-
Average Coupon	3.745%
Average Maturity (Yrs)	5.02
Average Modified Duration	4.39
Average Redemption Date (Yrs)	4.44
Average Price	\$90.949

Long Term Corporate Portfolio

Candidates Summary	
Total Par Value	\$1,000,000.00
Total Principal Value	\$935,183.00
Principal + Accrued	\$947,637.12
12 Month Income	\$53,440.00
Est. YTW / Est. YTM	6.134% / 6.134%
Average Rating	A3 / A-
Average Coupon	5.344%
Average Maturity (Yrs)	12.96
Average Modified Duration	9.00
Average Redemption Date (Yrs)	10.86
Average Price	\$93.518

Maturity	YTW	Effective	Change in Position Value	
Next Call	Price	Duration	-50bps	+50bps
5.01 yrs		4.29	+\$18,604.25 +2.19%	(\$19,539.00) -2.22%

Maturity	YTW	Effective	Change in Position Value	
Next Call	Price	Duration	-50bps	+50bps
12.95 yrs		9.11	+\$43,597.00 +4.69%	(\$41,142.00) -4.42%

Fixed Income and Advisory Accounts

- Appropriate FI investing: Determining whether it should be advisory or brokerage
 - Trading frequency
 - Duration
 - Portfolio Monitoring
 - Client Objectives
 - Types of assets held in the Account
- Advisory
 - Appropriate fees based on asset allocations (risk) within advisory accounts.
 - Fixed Income portfolios or holdings within advisory, should have standardized methodology and frequency for reviews.
 - Reviews should include: objective changes, drift in duration, credit, income, rebalancing for sector/subsector exposure, Issuer concentrations.
 - IARs have a responsibility to review advisory fees and compensation each pay period.

Please feel free to contact Michel Tsaparlis at mtsaparlis@kfn.com to schedule a call with questions or prior to client meetings.

Kovack Financial Companies : Trading Department

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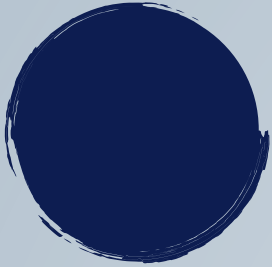
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(954)670-0605
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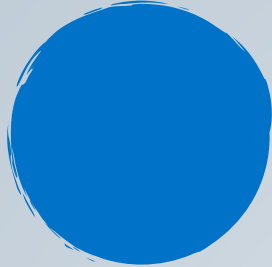
IWS

800-248-2745
PROMPT 3



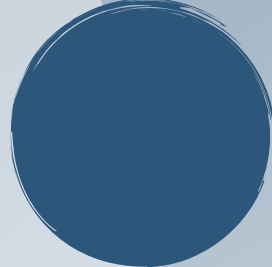
TD Ameritrade

800-355-2297



BOND TRADER PRO

800 -877-2410
PROMPTS 5,1,2

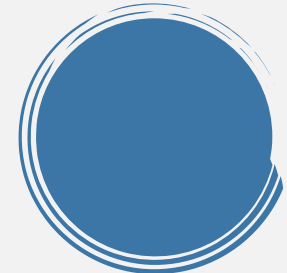


BOND CENTRAL

212-815-6410



Simon



Structured Products: Guidelines

- ▶ Prior to soliciting orders for structured investment products, Kovack Securities, Inc. requires you complete 10 educational modules, along with passing corresponding quizzes. The modules can be found on the Simon platform under Learning Center >> Training Courses & Resources on www.simonmarkets.com. If you need user/password information reset, please email request to hello@simonmarkets.com.
- ▶ By sending a request to hello@simonmarkets.com you can set up one on one systems training

Parameters

▶ **Kovack Advisors**

Illiquid assets, including structured products, will be limited to 20% market value for advisory accounts. Advisory accounts must have some level of active management. Illiquid products, given the absence of a viable secondary market, are buy and hold investments and therefore the limitations are applicable at the **account level**. Additionally, maturities will be limited to no more than three years or less. KAI, on occasion may allow for slightly extended maturities of market linked certificates of deposit under certain market conditions. Only advisory cusips may be purchased in advisory accounts.

As with all advisory accounts, the advisory management fee must be reasonable in light of the account investments and objectives.

▶ **Kovack Securities**

As with other illiquid investments, the client's liquid net worth is the key factor considered in determining KSI brokerage account guidelines for structured investments. KSI limits illiquid vehicles to approximately 25% of the client's total liquid net worth. Maturities will be limited to no more than seven years, and possibly less, with the exception of market linked CDs under certain market conditions.



MASTERING STRUCTURED NOTES

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 First Trust

WHY NOW?

- Exposure to a reference asset – **Income or Growth** potential
- Many structured notes have a degree of **built-in principal protection when held to maturity** depending on the terms of the issue
- Can be used as a **hedge for a variety of existing positions** depending on the terms of the issue
- Typically, **shorter maturities** than MLCs

SOFT LANDING?



HARD LANDING



MOST ACCURATE ECONOMIC FORECASTERS: 2022

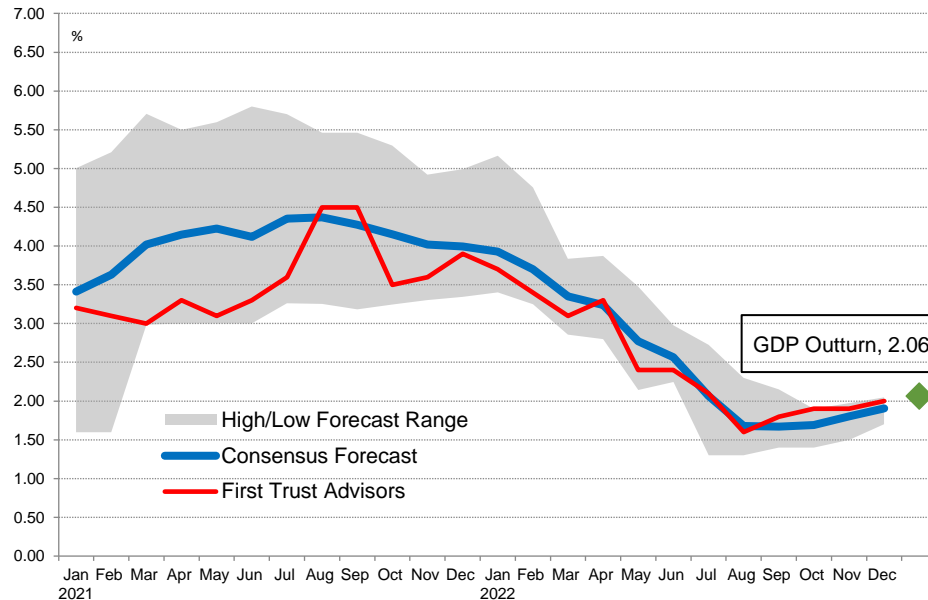


Brian Wesbury
Chief Economist



Robert Stein
Deputy Chief Economist

United States 2022 GDP Growth Forecasts Forecast Accuracy Award Winner & the Consensus

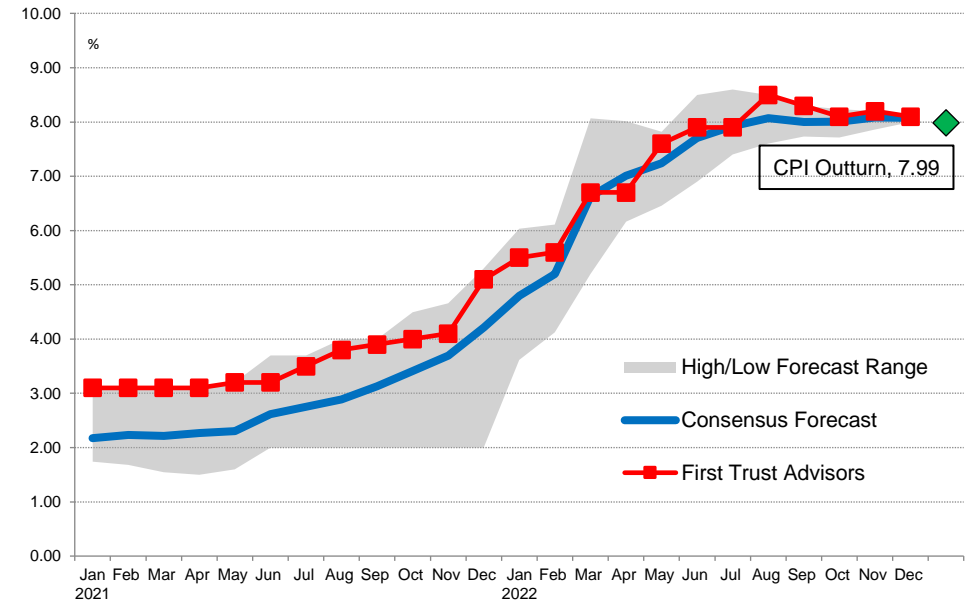


Consensus Economics
Forecast Accuracy
Awards
United States 2022

To determine forecast accuracy, Consensus Economics examined contributions for the 2022 Real GDP growth and Consumer Price Inflation (CPI) forecasts received in response to their monthly surveys conducted between January 2021 and December 2022. They then used mean absolute error analysis to compare these forecasts to the reported outturns (the official estimates of 2022 GDP and CPI released between January and April 2023) to determine the firm with the most accurate forecast. To be considered for the award, a panelist must have participated consistently in the monthly surveys over the forecasting period to ensure no panelist gained an advantage through non-participation, or by only providing forecasts toward the end of the 24-month cycle, when the steady release of official data can assist forecasters in making revisions. The forecaster with the lowest average error rate was deemed to have been the most accurate over the testing period.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

United States 2022 Consumer Price Inflation Forecasts Forecast Accuracy Award Winner & the Consensus





Monday Morning **OUTLOOK**

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Ellass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*

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July 10, 2023

Still Overvalued

In other words, the Goldilocks future, where the Fed manages everything perfectly, is likely too optimistic. Some stock valuations have become too high in our opinion. More defensive strategies are appropriate at this juncture.

DUAL DIRECTIONAL NOTES

EXAMPLE

2

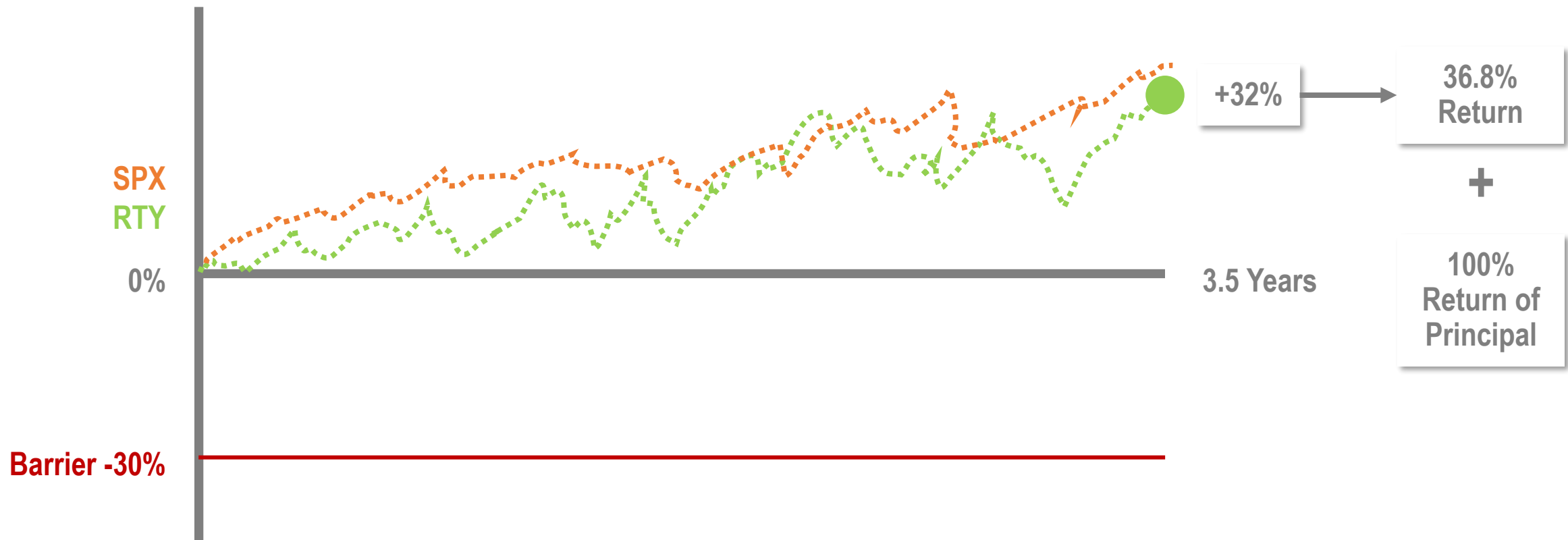
UNDERLIER	TERM	PARTICIPATION RATE	PERFORMANCE CAP	ABSOLUTE RETURN BARRIER
Lesser Performing of S&P 500 Index (SPX) and Russell 2000 Index (RTY)	3.5 Years	115%	Uncapped	-30% At Maturity (European)

This example is for illustrative purposes only and is based on the note being held to maturity. Terms of structured notes can vary. See the fact sheets and term sheets for details specific to each issue.

DUAL DIRECTIONAL NOTES

SCENARIO
1

115% Participation (Uncapped)

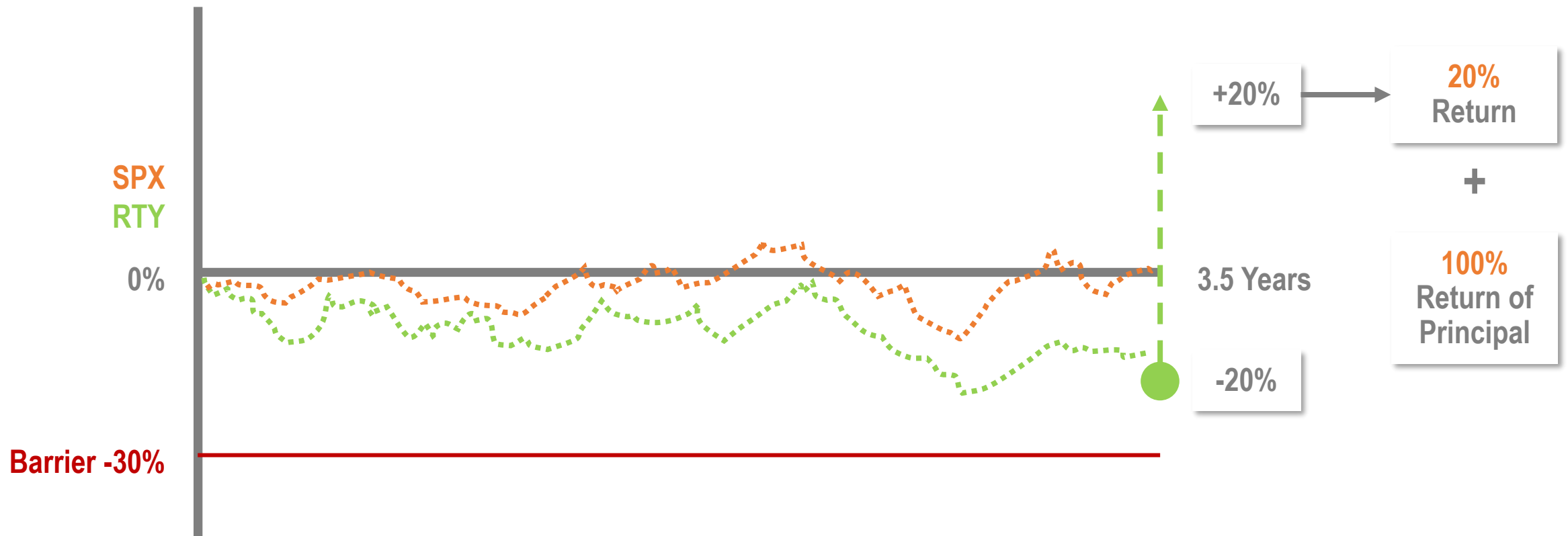


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DUAL DIRECTIONAL NOTES

SCENARIO

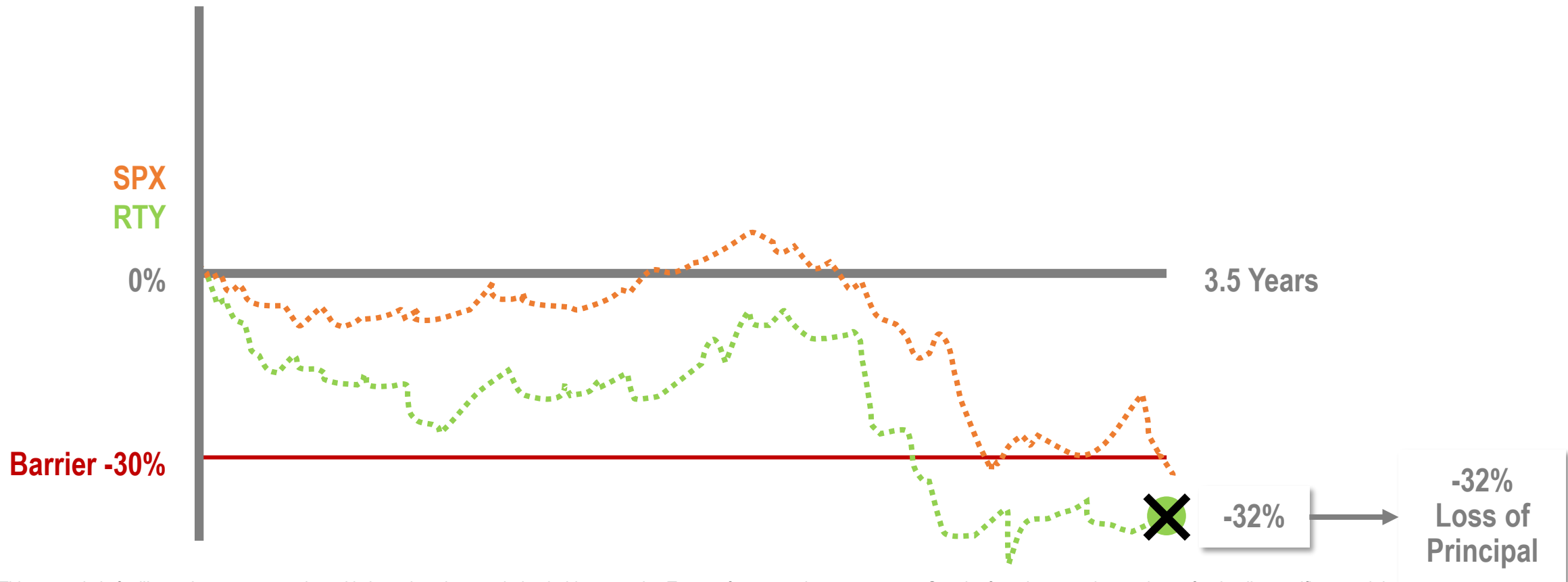
2



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DUAL DIRECTIONAL NOTES

SCENARIO
3



This example is for illustrative purposes only and is based on the note being held to maturity. Terms of structured notes can vary. See the fact sheets and term sheets for details specific to each issue.

AUTOCALLABLE YIELD NOTES

EXAMPLE

1

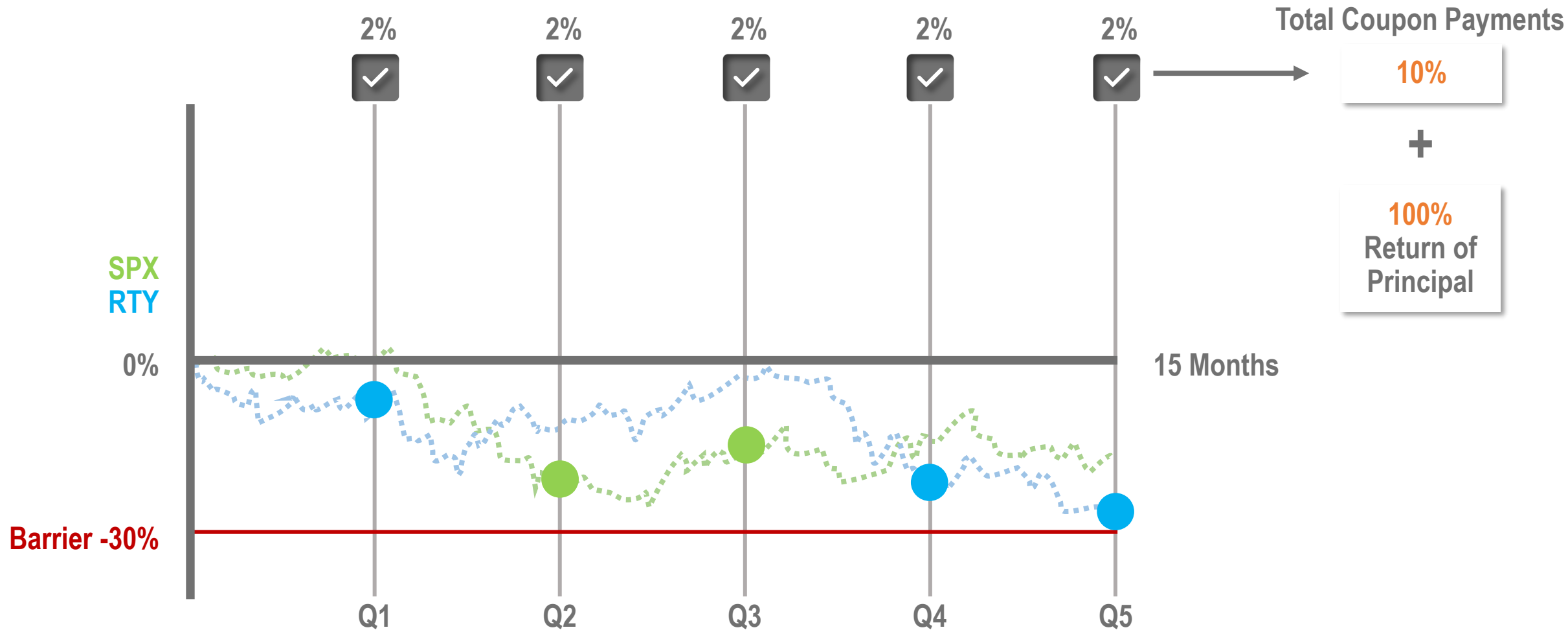
UNDERLIER	TERM	CALL TERMS
Lesser Performing of S&P 500 Index (SPX) and Russell 2000 Index (RTY)	15 Months	Autocallable Quarterly at Issuer's Discretion (If Both Indexes Are > or = Initial Values)
CONTINGENT COUPON	PRINCIPAL & COUPON BARRIER	PRINCIPAL BARRIER OBSERVATION
8% Annually (Paid Quarterly)	-30% (70% of Initial Index Values)	At Maturity (European)

This example is for illustrative purposes only and is based on the note being called or held to maturity. Terms of structured notes can vary. See the fact sheets and term sheets for details specific to each issue.

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AUTOCALLABLE YIELD NOTES | Not Called

SCENARIO
1

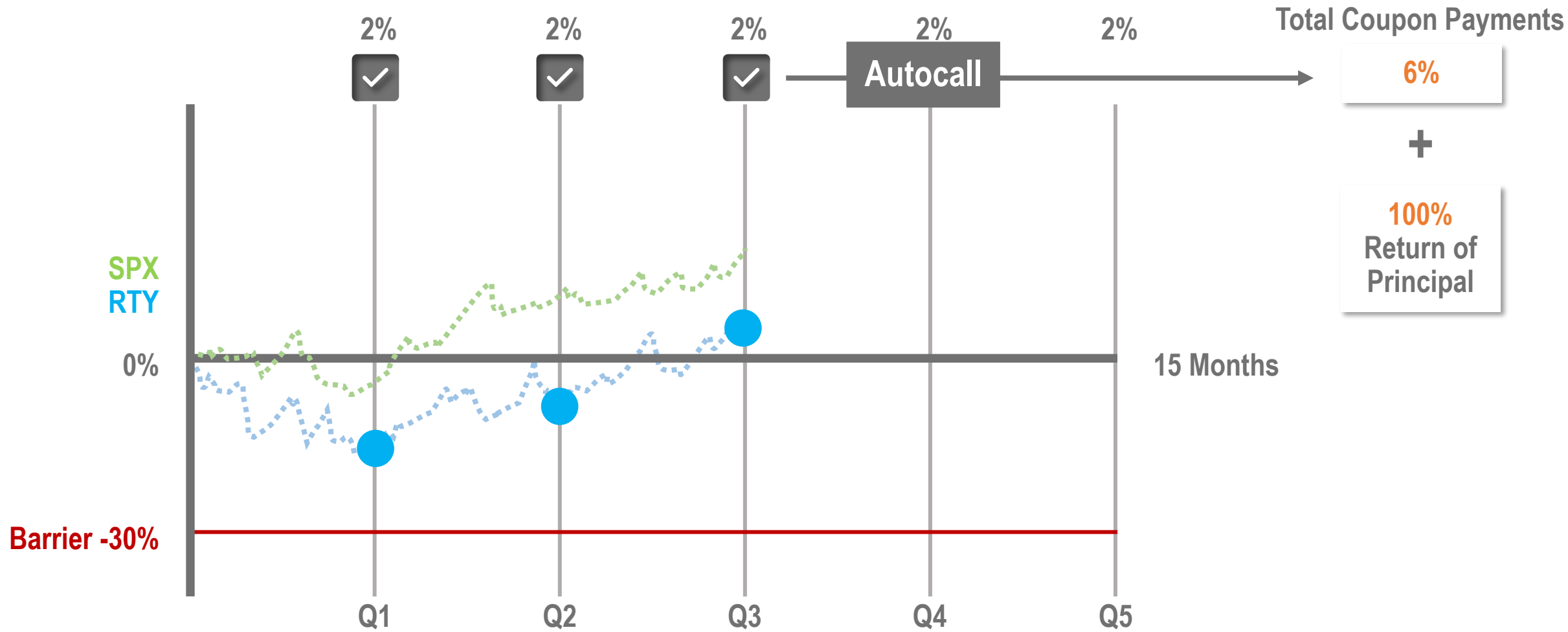


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AUTOCALLABLE YIELD NOTES | Called

SCENARIO
2



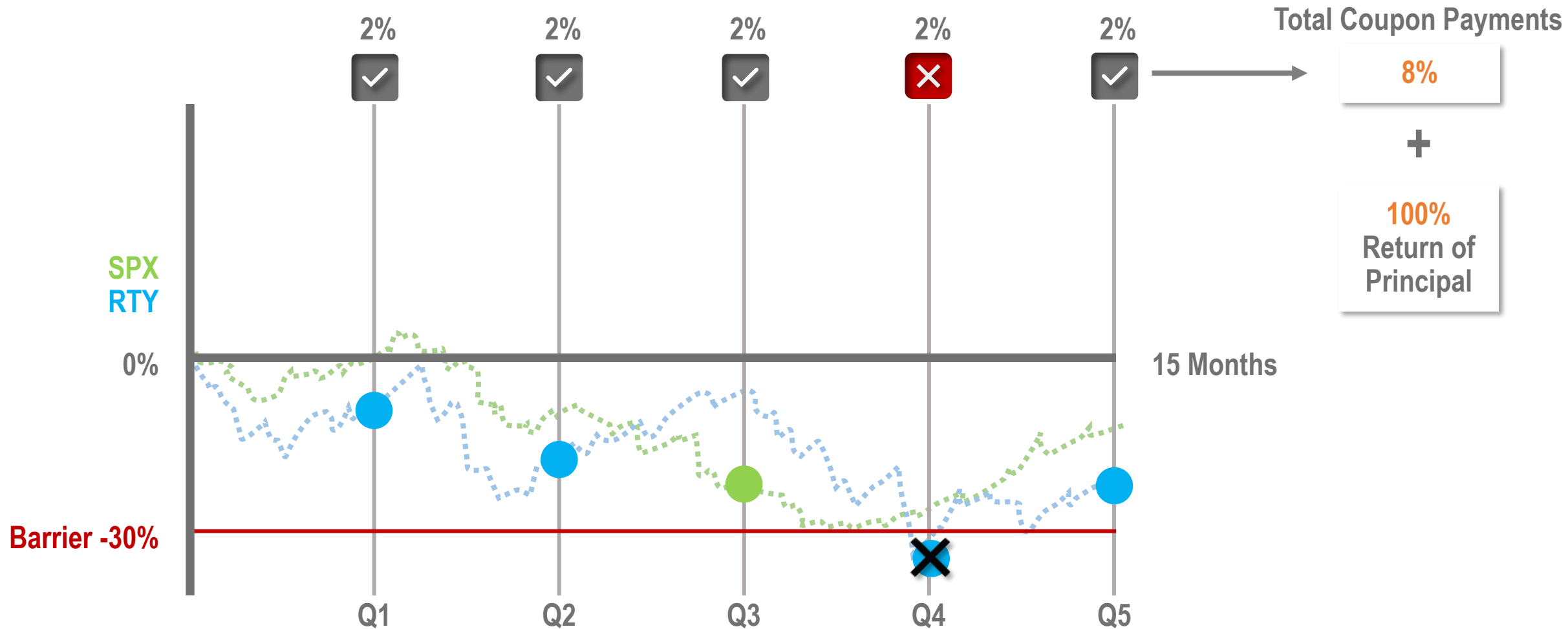
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AUTOCALLABLE YIELD NOTES | Missed Coupon

SCENARIO

3

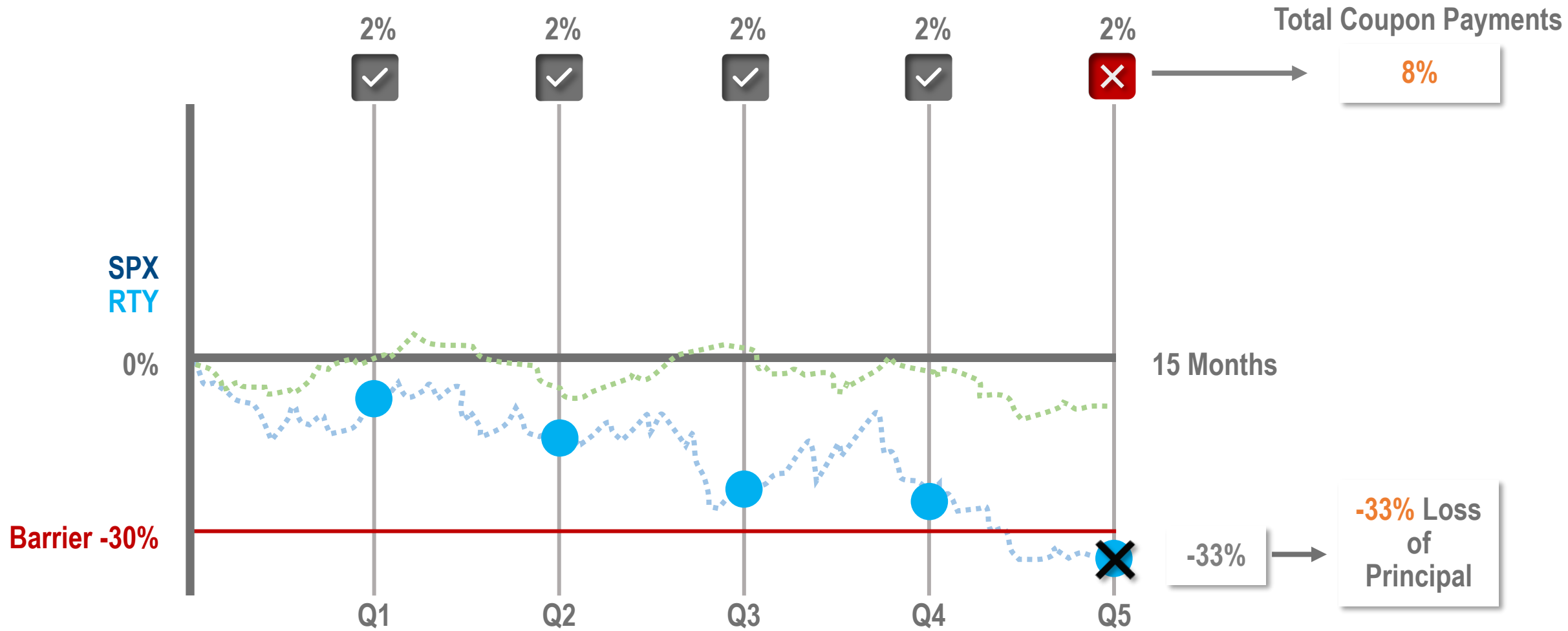


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AUTOCALLABLE YIELD NOTES | Barrier Breach at Maturity

SCENARIO
4



This example is for illustrative purposes only and is based on the note being called or held to maturity. Terms of structured notes can vary. See the fact sheets and term sheets for details specific to each issue.

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AFTER THE TRADE

- **Pricing** – Structured notes may trade at a discount relative to maturity/interest rates and volatility
- **Dividends** – Structured notes do not pay dividends
- **Call Procedure** – If a note gets called...
- **Performance Tracking** – referencing the structured note's final prospectus
- **Broker Analysis Report** – monthly report to monitor sales / YOY production

FREQUENTLY ASKED QUESTIONS

- **Available in Fee and Brokerage** – Most structured notes are available in either fee or brokerage accounts
- **Calendar and Custom Offerings** – Monthly flier for calendar offerings and dedicated Reverse Inquiry team for custom offerings
- **Minimums** – Calendar generally \$5,000 qualified, \$10,000 non-qualified (varies by B/D)
Custom generally \$1MM (varies by Issuer)
- **Single CUSIP** – Shows as a single CUSIP in client account

STRUCTURED NOTES SUMMARY

- Backed by the credit of the Issuer
- Requires a **time horizon**
- Exposure to a reference asset – **Income or Growth** potential
- **Calendar or Custom**

THANK YOU

