APPLETON PARTNERS, INC.

THIS WEEK IN THE BOND MARKET 10/5/2015

HEADLINE NEWS

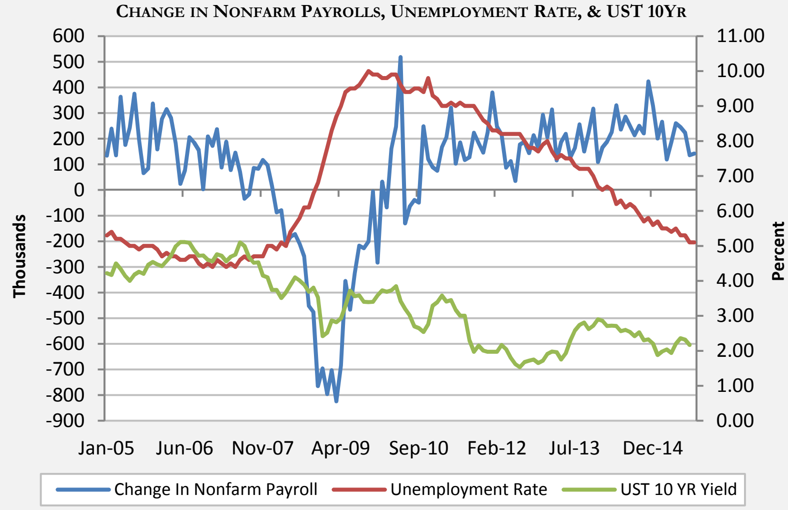
Disappointing Nonfarm Payroll Release Roils Market

- Friday's change in the September Nonfarm payrolls was a significant hit to the perceived health of the US economy and reduced the likelihood of a Fed rate increase anytime soon. The consensus before the release was for a positive 200,000 increase. However, the actual number 142,000, along with the revised prior month's number from 173,000 to 136,000, initiated a risk off tone and treasury rates rallied lower. As we have seen in the past, the 3/5/10 year parts of the curve netted the biggest move, with the 3Yr down 15bps to .85%, the 5Yr down 18 bps to 1.30%, and the 10Yr down 17bps to 1.99%. At one point, the UST 10Yr benchmark hit 1.90%. Market volatility and the risk tolerance of investors will continue to be mixed as concerns over the stability of US economy and the likelihood of a Fed rate move.

Positive Vibes from Local Government Officials

- The National League of Cities conducted its annual survey of 363 city officials and found that 82% of respondents believe their local government is better able to meet fiscal needs in 2015 v. 2014, the highest rate in 30 years.
- Officials are projecting reserves will reach a record of 25.2% of budgeted expenditures, on average. Improved fiscal health has been attributed to a reluctance to increase debt, conservative budgeting, and revenue growth driven by strengthening local economies.
- We note that although, on average, conditions are looking better for local governments, pockets of stress remain.

CHANGE IN NONFARM PAYROLLS, UNEMPLOYMENT RATE, & UST 10YR



Source: Bureau of Labor Statistics, Bloomberg

Congress Avoids Shutdown

- Congress approved a resolution to continue funding the federal government through December 11th.
- Treasury Secretary Jacob Lew announced that November 5th is the date when the Treasury Department will have exhausted "extraordinary means" it has been utilizing since earlier in 2015. The date marks a deadline for Congress to raise the federal debt limit, an issue that has caused political volatility in recent history.

MARKET UPDATE

Muni Market Overview

- Following the disappointing jobs report on Friday, the Municipal curve rallied in concert with the Treasury curve. The 5Yr was lower by 9bps to 1.23% and the 7Yr was down by 12bps to 1.59%.
- The calendar this week, at about $10 billion, is significantly larger than previous weeks, and 30-day visible supply jumped to $15.5 billion, the highest it has been since May. The drastic move in rates may encourage additional deals to come to market. The largest deal of the week is a $2 billion Port Authority of NY & NJ (Aa3/AA-/AA-) issue.

Corporate Market Overview

- Last week was a shaky and volatile trading week for Investment Grade bonds, as spreads widened and a risk off focus dominated investor sentiment. There were only 9 corporations willing to issue debt amid the volatility and issuance reached $26.275 billion on the week, which was well below expectations.
- The most notable deal was the 9 part, $14.6 billion deal done by Hewlett Packard Enterprise (HPE Baa2/BBB/A-). Hewlett Packard Enterprise is the product of last year's company spin off that is focused on the computer infrastructure, software, and services portion of Hewlett Packard's business. The other side of the company is Hewlett Packard Inc., which is comprised of the computer and printer business that will trade under the original HPQ ticker. Interestingly, $8.85 billion of this new bond deal will be transferred to HPQ for repurchases, redemptions, or the repayment of other debt. Overall, the deal was well received, as orders reached 2 times the amount of bonds available. The 5Yr HPE came at an issue spread of +225 basis points to the 5yr Treasury benchmark and the 10Yr came at +290. Overall, the deal was 10 - 15 bps tighter than the original price talk.

FIXED INCOME INDEX RETURNS AS OF 10/2/2015

	MTD	YTD
Barclays 3Yr	0.10	1.30
Barclays 5Yr	0.20	1.96
Barclays 7Yr	0.30	2.27
Barclays MM Short 1-5Yr	0.12	1.44
Barclays MM 1-10Yr	0.26	2.19
ML US Gov/Corp 1-10 Yr	0.29	2.32

Source: Interactive Data

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