APPLETON *PARTNERS,* INC.

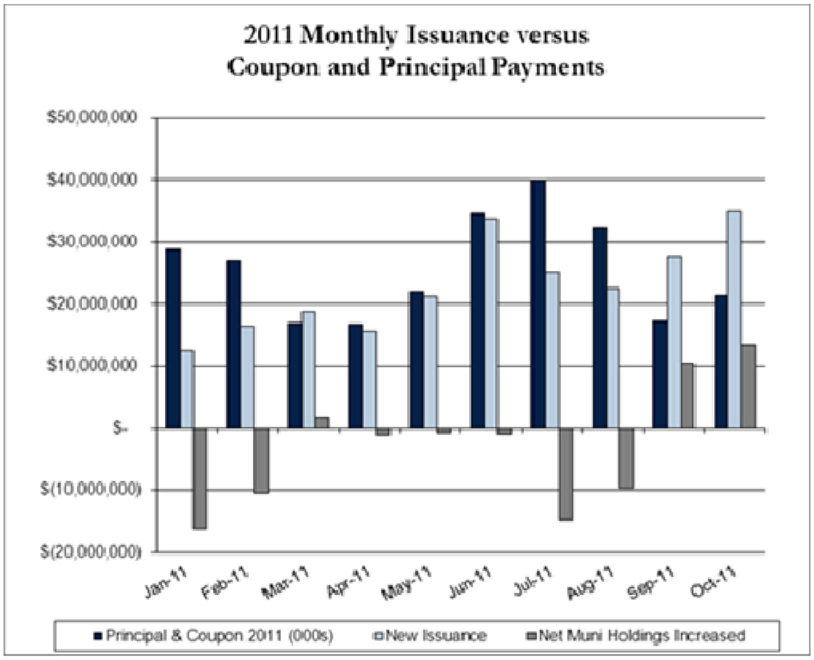
This Week in the Bond Market – 11/7/2011

HEADLINE NEWS (EURO-RISK PERSISTS, JOB GROWTH IS ANEMIC, AND THE FED, SEEING SOME ECONOMIC STRENGTH, BACKS AWAY FROM QEIII – FOR NOW)

- Eurozone uncertainty persisted last week, the employment report registered NFP growth of 80M jobs, well below the 200M-250M per month needed to grow the economy, and the Fed reiterated its determination to deliver price stability and growth.
- The Rockefeller Institute reported that state revenues from July and August were 8.4% higher than the same period in 2010.
- Standard and Poor's said municipal bond defaults were down 69.0% from Jan. 1 to Oct. 31, 2011, versus the same period in 2010. Of the 199 outstanding defaulted issues, 8.0% were issued for multifamily residential projects, 10.5% for health care, 43.7% for land-backed deals, 19.6% for bonds sold through conduit issuers, and 18.1% for other types. The outstanding defaulted issues total $6.6B.

SUPPLY (REMAINS ELEVATED, BUT IS AT THE LOWEST LEVEL IN 2 MONTHS – WITH AN INCREASE IN DEMAND AS MONEY MARKET FUNDS CONTINUE TO SEE WEEKLY OUTFLOWS)

- Last week's new issue tax exempt calendar ($8.7B) was dominated by the New York Liberty Dev Corp deal for $1.25B. Other deals of significance were the Connecticut State GO deal ($715M) and the State of California Public Works deal ($503M). New issuance continues to be very well received as deals were multiple times oversubscribed. This week's calendar begins to show signs of waning, with approximately $5.5B in tax exempt issuance - $1.0 to $2.0B lower than weekly issuance has been for the last several weeks.
- While Treasuries have experienced a flight to quality, Municipals are approaching a leaner supply period as we approach year-end. Supply and demand imbalances play a significant role in Municipal market performance. Low volume YTD has contributed to the strong municipal market performance this year, especially in months of net negative issuance. (See below)
- We expect the phenomenon to continue through the end of the year and into the 1st Quarter of 2012. According to Siebert Brandford Shank, November 2011 will see *more Municipals called than any other time in history*, producing significant negative net new issuance as we approach year-end and diminished supply.
- Higher Municipal ratios to Treasuries today (10Yr at 120%/Treasuries) will provide a cushion to the asset class in the next several months in either a stable or steepening curve environment. This can contribute to outperformance as the relationship to Treasuries normalizes and gravitates lower, perhaps to 95% of Treasuries.



Source: ML & MMA

MUNICIPAL INDEX RETURNS

	MTD 11/4	YTD 10/31
Barclays 3Yr	0.09	2.77
Barclays 5Yr	0.27	4.71
Barclays 7Yr	0.40	6.54
Barclays Mgd Money 1-10Yr	0.35	5.50

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