APPLETON PARTNERS, INC.

This Week in the Bond Market 11/22/2016

Headline News

Market Digests Election Implications

- While yields and volatility have been higher since the election, we believe that we will see more stability and support going into year end. Many of the reasons causing the market to sell off are based on the expectations of inflation from Trump's campaign platform initiatives of corporate tax cuts, personal income tax cuts and increased infrastructure spending. Each of these factors will take time to work into the market if or when they actually come to fruition, thus the spike in rates seems to be an overreaction to the surprise election results.
- The economic calendar is relatively light this week. FOMC will release the minutes from their Nov 2nd meeting on Wednesday. While we expect a rate hike in December and it seems to be priced into the market, we would like further insight into future potential rate hikes.

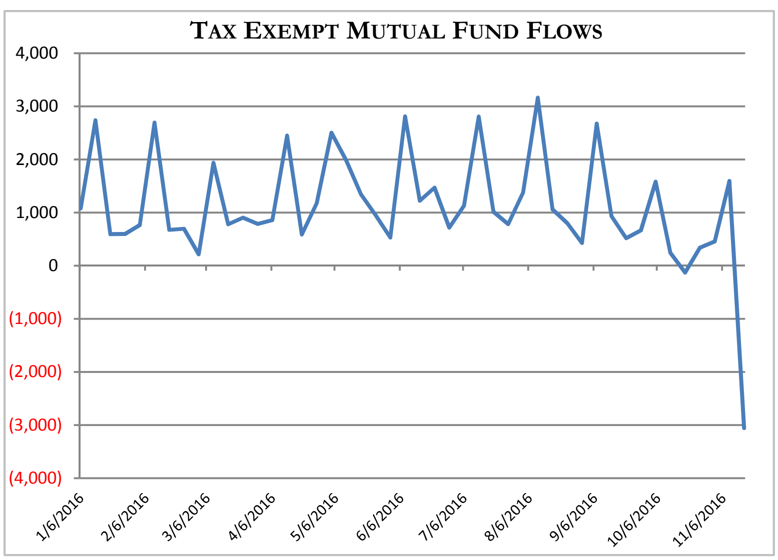
A Forward Look at Infrastructure Spending

- Infrastructure spending and the accompanying boost to economic activity were items of focus within President-elect Donald Trump's campaign and have received heightened attention post-election.
- The Trump administration envisions a $1.0 trillion infrastructure plan implemented over 10 years to be financed with tax credits offset by projected increases in personal income tax and corporate tax receipts. The plan relies primarily on private investment, which would reduce state and local issuance, if the policy is effected as envisioned. An "infrastructure bank" has also been introduced by members of the administration, which could supplement the traditional public finance market or reintroduce tax-subsidy programs, such as the Build America Bonds.
- Given the myriad of ideas floated and the fact that the administration has yet to take office, the ultimate impact on the municipal market is far from certain.
- What we do know is that approximately $55 billion of the $70 billion in general obligation bond authorizations were approved in the November election. In addition, a number of large transportation infrastructure projects to be funded by sales taxes and or property taxes were also approved. This implies that new money issuance in 2017 will be relatively strong, with very early projections by the Street pointing to new money issuance of approximately $200 billion, up 18% from 2016.

Market Update

Muni Market Overview

- Volatility continues in the Municipal market. The yield curve is higher and steeper again, with the 5Yr up 30bps to 1.54% and the 10Yr up 32bps to 2.26%.
- Municipal bond funds showed significant outflows totaling approximately $3.1 billion for the week ending 11/16/16, reducing year-to-date inflows to $51.4 billion. The majority of the outflows ($2.65 billion) were from Long Term funds.
- On the supply side, the calendar this week is a very small $1.5 billion due to the Thanksgiving holiday. 30-day visible supply is about $9.8 billion, and we expect it to pick up after the holiday.



Corporate Market Overview

- Investment grade issuance was very strong last week, as issuers tapped the market with $42.65 billion of new debt. A significant portion of that ($15.1 billion or 35%) was done by Abbott Labs (ABT Baa3/A+/A) to fund its acquisition of St. Jude Medical. Initial price talk in 10yrs was +170, but that quickly went tighter as investor demand pushed the level to +155 by the time the deal priced. The resiliency of credit spreads continues to be tested, but remains quite strong as spreads are at or very close to year-to-date tights.
- This year's record setting issuance may not be repeated anytime in the near future, as President-Elect Trump said that he may temporarily cut the rate on funds repatriated to the United States. If that is the case, then companies who are "stashing" cash abroad may no longer need to rely on the bond market to finance share repurchases. This temporary tax relief would affect some of the world's largest tech companies (Apple, Microsoft, Oracle, Cisco) and is believed to have the potential to reduce the amount of bonds issued by $150 billion.

FIXED INCOME INDEX RETURNS AS OF 11/18/2016

	MTD	YTD
Barclays 3Yr	-0.76	0.32
Barclays 5Yr	-1.61	0.21
Barclays 7Yr	-2.35	0.09
Barclays MM Short 1-5Yr	-0.97	0.10
Barclays MM 1-10Yr	-2.13	-0.18
ML US Gov/Corp 1-10 Yr	-1.52	1.60

Source: Interactive Data