APPLETON PARTNERS, INC.

This Week in the Bond Market
11/28/2016

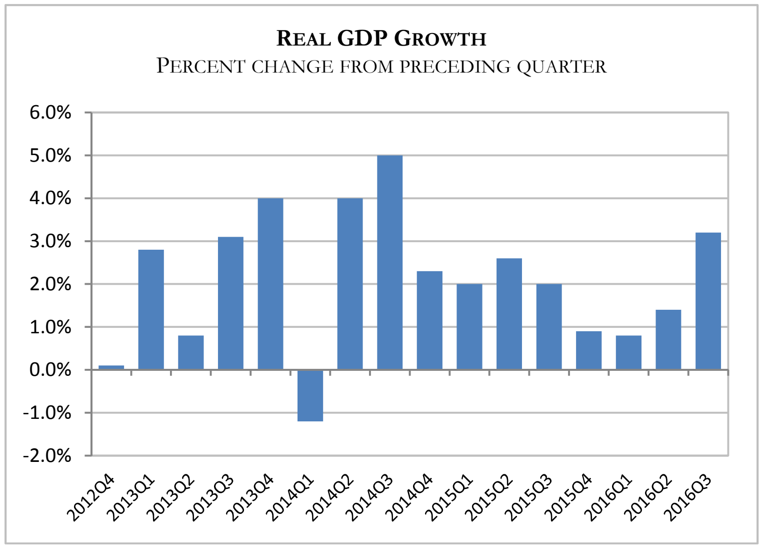
Headline News

OPEC Members to Discuss Cut on Wednesday

- Members of the Organization of the Petroleum Exporting Countries (OPEC) will meet this Wednesday to discuss cutting production in an effort to stabilize global oil prices. The meeting, to take place in Vienna, is scheduled to expand on details of an agreement reached in September to trim production and better balance supply with lukewarm demand.
- Lack of trust appears to be the leading hurdle to achieving across-the-board cuts to output, as major producers such as Saudi Arabia are worried their market share will be eroded by others, particularly Russia and Iran, who will defy the reductions.
- Even if an agreement is reached by OPEC, actual implementation of reducing output may not come to fruition. Along with market share, many OPEC members rely on revenues from oil production to subsidize other parts of their societies. We've seen low oil prices drive significant budget deficits for a number of oil-producing countries, causing major disruptions to local economies and making output reductions a difficult proposition.
- From a multi-year low in January of 2016, both Brent and WTI crude prices have appreciated over 70%. Both are under pressure Tuesday morning, trading down over 3%, amid skepticism of OPEC's ability to strike a deal.

Third Quarter GDP Growth Remains Strongest in Two Years

- The U.S. Commerce Department revised its estimate of third quarter GDP up to 3.2% from the initial 2.9% announcement. Growth exceeded expectations of 3.0% and the year-over-year growth rate increased to 1.6%.
- Consumer spending continues to drive growth, as consumption was revised up from 2.1% to 2.8%. Business investment remained a weak patch, as initial estimates of -0.6% were revised down to -0.9%.
- Even prior to the revision, the third quarter's growth rate was the strongest the U.S. has experienced in two years. Current quarter growth may not be as robust, but should benefit from continued consumer confidence and a potential uptick in fixed investment driven by an improvement in the domestic energy sector.



Source: U.S. Bureau of Economic Analysis

Market Update

Muni Market Overview

- Yields on the Municipal curve are higher again following the thinly traded holiday week. The 5Yr is up 12bps to 1.66% and the 7Yr is up 13bps to 1.95%. Since the election, 2-10Yr spreads have added almost 40bps of steepness.
- Municipal bond funds saw another week (ending 11/23/16) of outflows of $2.23 billion. In the previous two weeks, outflows have been roughly 10% of year-to-date inflows, with most of the redemptions coming from High Yield and Long Term funds.
- After a very light holiday week, supply comes back into the market this week. This week's calendar is expected to be about $10 billion and the 30-day visible supply jumps up to almost $18 billion, indicating decent issuance to end the year.

Corporate Market Overview

- The Thanksgiving holiday week tends to be very quiet and last week did not deviate from that norm. Investment Grade issuance was front loaded, as 5 issuers brought $8 billion over Monday and Tuesday, bringing the monthly total to $65.8 billion. Typically, the weeks following the Thanksgiving week are very heavy with issuance, and we think that trend will continue as a number of issuers are due to come to market.
- As a whole, credit spreads were again relatively unchanged and credit continues to hold its own. After a few volatile weeks the US Treasury market had a slight reprieve, as the 10Yr benchmark was unchanged at 2.36% and the 30Yr bond was tighter by 3 basis points to 3.01%. The front end of the curve continues to rise though, as the 2 & 5Yr points on the curve rose 5 basis points to 1.12% and 1.84%.

FIXED INCOME INDEX RETURNS AS OF 11/25/2016

	MTD	YTD
Barclays 3Yr	-0.96	0.11
Barclays 5Yr	-2.01	-0.21
Barclays 7Yr	-2.82	-0.38
Barclays MM Short 1-5Yr	-1.22	-0.16
Barclays MM 1-10Yr	-2.57	-0.63
ML US Gov/Corp 1-10 Yr	-1.70	1.42

Source: Interactive Data

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