THIS WEEK IN THE BOND MARKET
11/2/2015

APPLETON PARTNERS, INC.

HEADLINE NEWS

The Market is Already Adjusting to the Prospect of Rate Hikes

- With a quasi "hawkish" message at the October 28, 2015 meeting, the Fed kept the option alive for a December rate hike and rates tracked slightly higher. This was the first time in recent years that the FOMC referenced a specific future meeting (Dec 2015), in addition to focusing our attention not only actual data releases, but *anticipated improvements in economic conditions* to justify a rate hike.
- The Committee made it clear that "in determining whether it will be appropriate to raise the target range at its *next meeting*, the Committee will assess progress — *both realized and expected* — towards its objectives of maximum employment and 2 percent inflation."
- Q3 GDP was also released last week at 1.5% versus an expected 1.6% and below the previous quarter's 3.9%. Core PCE, an inflation indicator on which the Fed focuses, came in at 1.3% QoQ versus an expected 1.4%. On Friday, the October non-farm payroll report (expectation of 182,000) will be especially important after a disappointing September reading of 142,000 (versus an expected gain of over 200,000) and a downward revision for August.

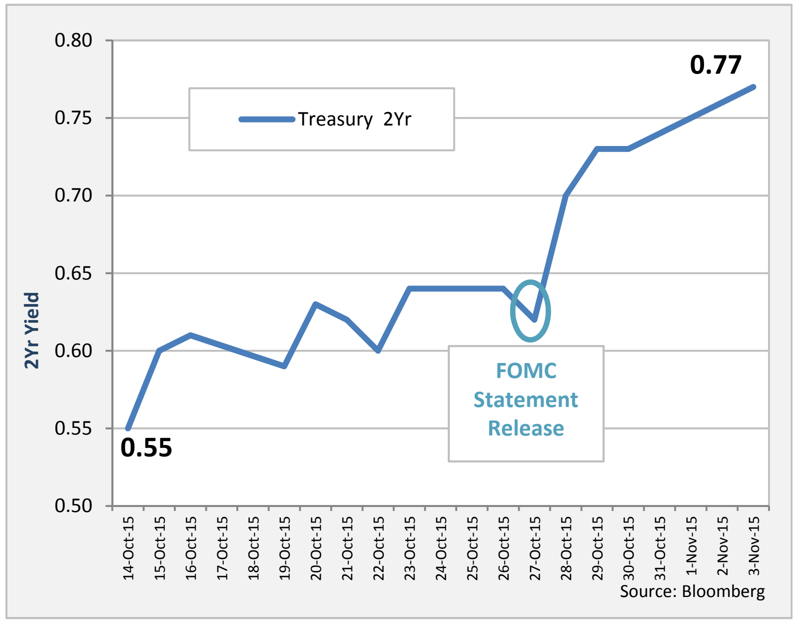
Debt Limit Extended; Avoids Government Shutdown

- Congress approved a two-year budget deal that extends the debt limit through March 2017 and boosts spending on military and domestic programs by $80 billion over the next two years.
- Under separate legislation, Congress approved a three-week reauthorization of transportation funding from the Federal Highway Trust Fund through November 20th.

Icahn Pushes for AIG Spinoff

- Carl Icahn is rattling the cages at American International Group (AIG) with his letter last week advising CEO Peter Hancock to spin off AIG's life and mortgage units into separate companies. The move would return more cash to shareholders, Icahn said, and help diminish AIG's regulatory burden.
- Moody's has already commented that splitting into three companies would be negative for the insurer's debt by limiting geographic and product diversification, as well as, liquidity at the parent company. We assign low odds to it coming to fruition, with the more likely scenario resulting in more aggressive cost cutting and a separation of the much smaller mortgage insurance business.

After Weak Retail Sales and PPI Data on October 14th, 2Yr Treasuries Dropped by 7bps to Yield .55%. With the Release of the FOMC Statement on 10/28, 2Yrs Tracked Higher, More Closely Reflecting the Possibility of a December Rate Hike



S&P Warns US Banks of Downgrade Potential

- Earlier this week, Standard & Poor's put eight large U.S. banks, including Wells Fargo, Goldman Sachs, Morgan Stanley and Citigroup, on credit watch negative, implying a 50% likelihood of a downgrade before the end of the year.
- The rating agency's concern is based on the expectation that, due to the regulatory framework that has been put in place, the U.S. government will be less likely to provide extraordinary support to these institutions in the event of another financial crisis.
- We would emphasize that the negative view is not necessarily based on the banks' capital positions, and largely pertains to the banks' holding companies, whereas operating subsidiaries actually have a positive outlook at S&P.

MARKET UPDATE

Muni Market Overview

- With yields largely unchanged, last week was the heaviest week of trading since the end of June and new deals were bumped. Supply for this week is expected at $6.4 billion, which continues to be below the weekly average for the year.

Corporate Market Overview

- Last week's Investment Grade credit issuance of just over $32 billion was the highest in 7 weeks. The most notable deal was the $13 billion issued on Thursday by Microsoft (MSFT Aaa/AAA). Price guidance on the 10-Year maturity began at +105, but final pricing was +95 and the deal tightened another 10 in the grays market, as the deal was 3-4 times oversubscribed.

FIXED INCOME INDEX RETURNS AS OF 10/30/2015

	MTD	YTD
Barclays 3Yr	0.25	1.45
Barclays 5Yr	0.56	2.33
Barclays 7Yr	0.56	2.53
Barclays MM Short 1-5Yr	0.32	1.64
Barclays MM 1-10Yr	0.43	2.36
ML US Gov/Corp 1-10 Yr	-0.20	1.83

Source: Interactive Data

APPLETON PARTNERS, INC. ONE POST OFFICE SQ. BOSTON, MA 02109 TEL. 617.338.0700 WWW.APPLETONPARTNERS.COM