APPLETON PARTNERS, INC.

This Week in the Bond Market 11/9/2015

Headline News

Jobs Report Fuels Likelihood of Fed Move in December

- The October jobs report was released on Friday (11/6/15) with Nonfarm payrolls significantly higher than expectations at 271k versus 185k. Additionally, average hourly earnings increased to 0.4% from the expected 0.2%. The jobs report gives the Fed some ammunition for a rate hike in December and the market probability of a hike has jumped to 68%.
- Before the December FOMC meeting, there are still some important data points that the Fed will have to consider, including another jobs report.

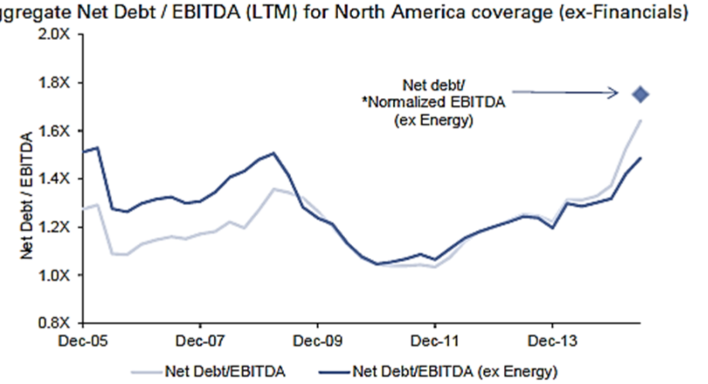
State and Local Investment May Pick Up

- Voters approved 79%, or $19 billion, of the $24 billion in borrowing requested by state and local governments in the November elections.
- The requested authorizations were the largest in an odd-numbered election year since 2007, indicating that government officials are becoming less reluctant to take on new projects.
- We've seen recent evidence of a greater willingness to invest in infrastructure. October's new money issuance in the municipal market was $15.2 billion, or 6.8% greater than the same month last year. This extends a recent trend and now new money issuance is up 6.3% year-to-date.

Leverage in Corporate America at 10 Year Highs

- According to a recent Goldman report, corporate leverage in North America is at its highest level in 10 years. Corporate debt has been issued at record levels to fund buybacks and M&A. An extended period of low interest rates, yield hungry demand for fixed income instruments, and a boom in M&A activity have all fueled an increased in indebtedness that has outpaced growth in corporate cash flows.
- With the prospect of rising rates looming, corporations with weaker balance sheets that have levered up in the low rate environment could struggle to maintain spreads with the re-emergence of market volatility.

Exhibit 15: Net Debt / EBITDA is up across the market and looks even more stretched on "normalized" levels
Aggregate Net Debt / EBITDA (LTM) for North America coverage (ex-Financials)



* Normalized based on median EBITDA (LTM) from 1Q07-2Q15.

Source: Goldman Sachs Global Investment Research.

Market Update

Muni Market Overview

- The Municipal curve was higher over the week by about 10bps inside of 10 years. The move was in sympathy with the Treasury move, although not as exaggerated. Supply of Munis seems low, partially due to the Veterans Day holiday, with expected issuance for the week at about $7 billion and 30-day visible supply at $7.6 billion, below the average for the year of $10.6 billion. There is plenty of demand as evidenced by deals being over-subscribed and increased fund flows, $1.5 billion for the weekend ending 11/4/15 and YTD total of $7.5 billion.

Corporate Market Overview

- Investment grade spreads ended the week generally unchanged, even as the Fed and the better than expected jobs number jolted the markets. New issuance came in close to market expectations, as 30 issuers priced nearly $38.75 billion in new debt. One deal of note was the $7.5 billion deal that Halliburton (HAL A/A-/A-) brought on Thursday across 5 maturities. The deal was originally priced at +195 to the 10Yr Treasury, but due to overwhelming demand, the deal tightened 35 basis points to +160 at final pricing. Year-to-date IG issuance is $1.19 trillion.
- The US Treasury market sold off significantly to levels that haven't been seen since July. The 5Yr yield rose 14 basis points to 1.77%, the 10Yr benchmark yield rose 12 basis points to 2.33%, and the 30Yr bond climbed 10 basis points to end the week at 3.10%. The average market consensus of the year-end US Treasury 10Yr is 2.32%.

FIXED INCOME INDEX RETURNS AS OF 11/6/2015

	MTD	YTD
Barclays 3Yr	-0.25	1.19
Barclays 5Yr	-0.38	1.94
Barclays 7Yr	-0.42	2.10
Barclays MM Short 1-5Yr	-0.28	1.35
Barclays MM 1-10Yr	-0.46	1.89
ML US Gov/Corp 1-10 Yr	-0.65	1.17

Source: Interactive Data

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