APPLETON PARTNERS, INC.

THIS WEEK IN THE BOND MARKET 12/14/2015

HEADLINE NEWS

High Yield Under Stress

- In the face of persistently low energy prices and stagnant economic conditions, the High Yield market is beginning to show significant cracks. Late last week, the market was shaken with a report that Third Avenue had delayed investors' ability to withdraw funds from their ~$800 million Focused Credit Fund until assets could be properly liquidated. While these so-called "gates" were a common occurrence with hedge funds during the financial crisis, they are extremely rare in the case of mutual funds. This news was soon followed by Stone Lion, a New York-based hedge fund with $1.3 billion under management, suspending redemptions at a $400 million credit hedge fund after clients asked to pull too much money.
- What started as weakness in the energy sector seems to be reverberating throughout the High Yield asset class, as investor concerns about liquidity grow. Over the last week, most High Yield indices are down ~3.5%.

Focus on Data Releases

- November Retail Sales showed their strongest gain in four months, rising 0.2%, short of the 0.3% expectation. The Producer Price Index surprisingly rose by 0.3% for November when it was expected to be flat after falling for the last 3 months, while CPI came in flat for November, exactly as expected.
- In addition to closely monitoring all US economic data releases, the FOMC is also weighing the further deterioration of oil prices, uncertainty in world economies, and the liquidity crunch in the High Yield market. Given all these factors, the market is still predicting about a 75% likelihood of a rate hike at the conclusion of the Fed's meeting Wednesday (12/16).

MARKET UPDATE

Corporate Market Overview

- Last week's $32.2 billion in Investment Grade issuance may be the last significant issuance of the year. The largest deal of the week was the $16 billion brought by Visa (V 1/A+/A+) across 6 different maturity tranches. Demand was not as robust as in the past, but the deal was still oversubscribed.
- The volatility in the commodities market is putting pressure on HY and IG energy sector spreads. Additionally, the metals and Mining sector is wider. Outside of that sector, Investment grade was slightly wider on the week. The U.S. Treasury curve continued to flatten, as maturities 5 – 30 years were down by roughly 15 bps. The 10Yr ended the week at 2.13%.

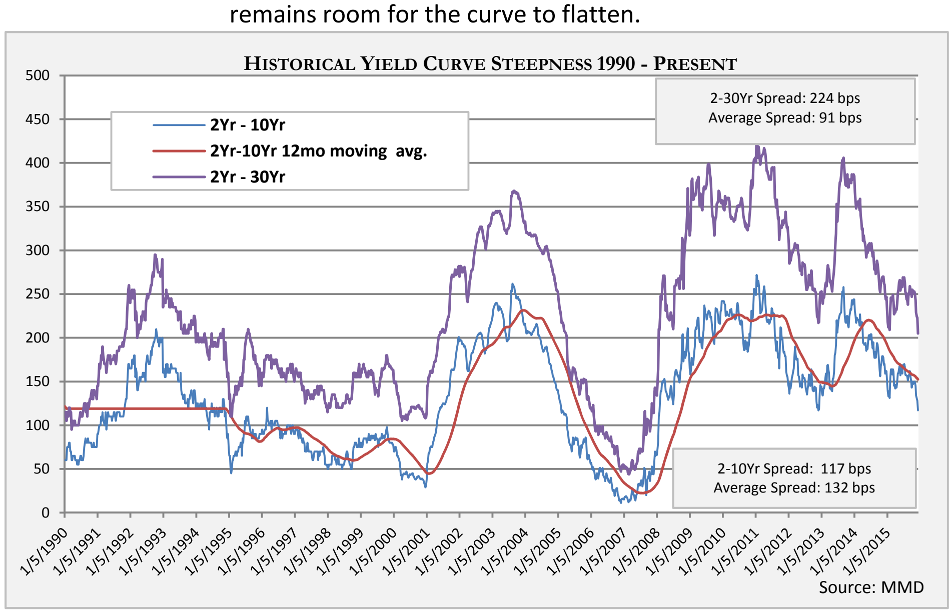
Muni Market Overview

- Demand remains very strong for Munis, with $1.2 billion of inflows to Municipal Bond Funds for the week ending 12/9/15, bringing the YTD total to $10.6 billion. This near term high is about $1 billion short of the previous high for the year in May.
- Primary supply falls off dramatically this week with only $2.5 billion expected, as we are waiting for the FOMC decision on Wednesday and approaching the end of year "holiday slump."
- The yield curve flattened further and more significantly than last week with the 5Yr coming down 3bps to 1.24% and the 10Yr coming down 9bps to 1.92%. As seen below, the 2-10Yr spread, at 117 bps, is well below the 132 bps average since 1990. However, it is not the lowest that the market has seen, so there remains room for the curve to flatten.

FIXED INCOME INDEX RETURNS AS OF 12/11/2015

	MTD	YTD
Barclays 3Yr	-0.02	1.22
Barclays 5Yr	0.16	2.39
Barclays 7Yr	0.38	3.12
Barclays MM Short 1-5Yr	0.01	1.40
Barclays MM 1-10Yr	0.29	2.71
ML US Gov/Corp 1-10 Yr	-0.07	1.51

Source: Interactive Data



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