APPLETON PARTNERS, INC.

THIS WEEK IN THE BOND MARKET
12/21/2015

The team at Appleton Partners would like to wish our partners a happy and healthy holiday season!

HEADLINE NEWS

The Much Anticipated Rate Hike!

- On Wednesday, the Fed raised the Federal Funds rate for the first time since 2006. The range was previously 0-.25% and is now a range of 0.25%-0.50%. As expected in our forward thinking market, the next rate hike is now the question.
- As we have previously heard, future policy decisions will be gradual. The FOMC "will carefully monitor actual and expected progress towards its inflation goal," as inflation has been the more troubled half of the Fed's dual mandate. A major factor of inflation is the price of oil and Yellen's continued believe that this is a transitory factor, which is debatable.
- The FOMC was likely pleased that there was little reaction in the market and it gives them confidence for the next rate hike.

FED MEDIAN ECONOMIC PROJECTIONS

	2015	2016	2017	2018	Long Run
Real GDP:					
Dec. 16, 2015	2.1%	2.4%	2.2%	2.0%	2.00%
BP Change Since last Meeting	*0.0*	*0.1*	*0.0*	*0.0*	*0.0*
Unemployment Rate:					
Dec. 16, 2015	5.0%	4.7%	4.7%	4.7%	4.90%
BP Change Since last Meeting	*0.0*	*-0.1*	*-0.1*	*-0.1*	*0.0*
Fed Funds:					
Dec. 16, 2015	0.4%	1.4%	2.4%	3.3%	3.50%
BP Change Since last Meeting	*0.0*	*0.0*	*-0.2*	*-0.1*	*0.0*
PCE Price Index:					
Dec. 16, 2015	0.4%	1.6%	1.9%	2.0%	2.00%
BP Change Since last Meeting	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*
Core PCE Central:					
Dec. 16, 2015	1.3%	1.6%	1.9%	2.0%	-
BP Change Since last Meeting	*-0.1*	*-0.1*	*0.0*	*0.0*	-

Source: Bloomberg

MARKET UPDATE

Muni Market Overview

- The Municipal bond market digested the first Fed rate hike since 2006 without much commotion. Yields in the shorter part of the curve were up a couple of basis points, over the week, but beyond 7Yrs was up just 1bp.
- Supply is a large part of the picture with December net issuance expected to end at -$15 billion and January estimated at -$7 billion. This week's calendar shows just $200 million, which does not add much to the projected $400 billion in supply for the year, and raises doubt whether we make it to that level of issuance for 2015.

FIXED INCOME INDEX RETURNS AS OF 12/18/2015

	MTD	YTD
Barclays 3Yr	-0.10	1.14
Barclays 5Yr	0.11	2.34
Barclays 7Yr	0.33	3.08
Barclays MM Short 1-5Yr	-0.06	1.33
Barclays MM 1-10Yr	0.23	2.64
ML US Gov/Corp 1-10 Yr	-0.05	1.52

Source: Interactive Data

Corporate Market Overview

- As commodity prices push on new lows, the effects of the High Yield energy sector deterioration continues to put pressure on Investment Grade Credit Spreads. The BofA ML IG Master index was 1 wider on the week (+174 vs +173). The YTD wide's on that index was +180 (October) and the YTD tights were in March at +129.
- Volumes were incredibly low as the uncertainty of a Fed move at the beginning of the week collided with an actual rate move. As you can imagine, there was zero IG new issuance. Initially, the market shrugged off the already baked in rate hike; however, by week's end treasuries were in rally mode. The 5yr was down 5 bps to 1.703%, the 10yr dropped 7 bps to 2.22%, and the long bond dropped 8 bps to 2.93% on the week.

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