APPLETON PARTNERS, INC.

THIS WEEK IN THE BOND MARKET
12/5/16

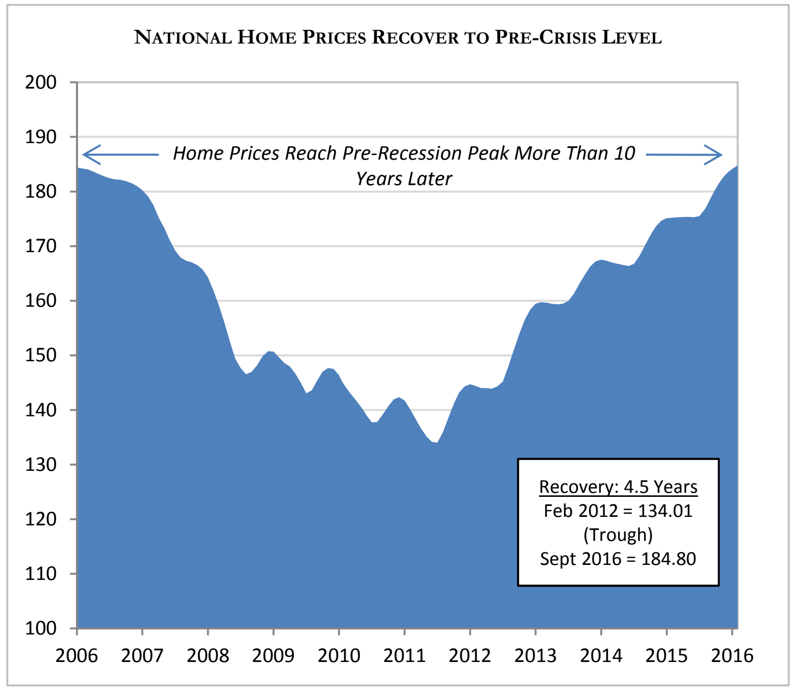
HEADLINE NEWS

Nonfarm Payrolls Show Strength

- Nonfarm payrolls was a mixed report on Friday, but the bond market reacted with strength after several weeks of higher yields. For November, nonfarm payrolls added 178k jobs, right on the consensus of 180k with minimal combined 2-month prior revision. The unemployment rate surprised with a drop from 4.9% to 4.6% due to a decline in the labor force participation rate. The participation rate came in at 62.7%, which has dropped 0.1% for each of the past 2 months.
- While the expectations for the FOMC rate hike on the 14th are almost a certainty, there is still some room for surprise in the dot plot projection of future rate hikes.

National Housing Recovery Continues

- According to September data from the S&P/Case-Shiller U.S. National Home Price Index, the U.S. housing prices have officially recovered from their descent during the financial crisis. September's reading of 184.80 increased 5.5% from the prior year and was 0.1% above the pre-recession peak set in July 2006.
- The recovery took more than four years, as the low point for the index occurred in early 2012.
- While positive news for homeowners, the recovery has not been uniform. Western markets such as Seattle, Portland and Denver have experienced strong growth, while Miami, Phoenix, and Las Vegas home prices have increased, but remain well below their pre-crisis highs.
- Adjusting for inflation, the current median home price still remains approximately 16% below its peak.



Source: S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index

MARKET UPDATE

Muni Market Overview

- The Municipal yield curve moved significantly higher again last week, but with a little bit of stability at the end of the week, with the 5Yr up by 25bps to 1.91% and the 7Yr up 21bps to 2.16%.
- Municipal funds saw in outflows for the 3rd consecutive week with $2.095 billion bringing the year-to-date total down to $47 billion from the high of $54.4 billion. Further on the demand side, crossover buyers are likely to step in since the 10Yr Muni to Treasury ratio is well above 100%.
- This week's supply is expected to be above $10 billion for the second week running. Next week's issuance may be slower given that the FOMC is expected to raise the Fed Funds rate on the 14th and issuers may choose not to come to market in anticipation. 30-day visible supply shows about $15 billion.

Corporate Market Overview

- Demand for Investment Grade credit spreads continues to be robust and credit spreads are at year-to-date tights. The Bloomberg Barclays US IG Corporate Bond Index OAS ended the week tying the low for the year at 129. The wide in 2016 was 215. Issuers were back in the market last week meeting investor expectations, tapping the market for $34 billion of new financing. One of the largest deals was the $7 billion, 5 part deal brought by Wells Fargo (WFC Aa2/AA-). Two billion was issued as 30Yr subordinate and the balance was issued as senior debt that was all under 3 years.
- There was a slight steepening in the US Treasury curve as the 10Yr rose by 3 basis points to 2.38% and the long bond rose 6 basis points to 3.06%. Shorter bonds were slightly down for the first time in several weeks.

FIXED INCOME INDEX RETURNS AS OF 12/2/2016

	MTD	YTD
Barclays 3Yr	-0.13	-0.33
Barclays 5Yr	-0.23	-1.11
Barclays 7Yr	-0.28	-1.55
Barclays MM Short 1-5Yr	-0.14	-0.72
Barclays MM 1-10Yr	-0.23	-1.61
ML US Gov/Corp 1-10 Yr	0.00	1.50

Source: Interactive Data

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