HEADLINE NEWS

FOMC Lowers Forecasts – Lowers the Dots - and Replaces "Patient" with Other "Patient-Like" Language

After "patient" was removed from the Fed's language, the markets were quick to realize that while the language had changed, Fed policy did not. The Fed views the strengthening labor market as needing further improvement, and the prospects for getting within the general vicinity of the 2.0% inflation target are slim at best in 2015. Bottom line: The Fed's own forecast came closer to the market consensus, and, particularly in the area of the Fed Funds target, was lowered dramatically. The year-end 2015 forecast was lowered from 1.125% to .625%, a meaningful change when one considers that the first quarter of the year is almost over. Appleton continues to believe that any rate move in 2015 would occur late in the year, given that, with the exception of improvements on the jobs front, there are many signs, other than the poor winter weather, which indicate the economy is more tentative. Following the Fed meeting in December, the Fed Funds future rate plummeted to 0.42%, a decline of more than 20 basis points. The markets continue to lead the Fed lower.

2015 YEAR-END PROJECTIONS:	DECEMBER 2014 MEETING	MARCH 2015 MEETING
Change in GDP	2.6% - 3.0%	2.3% - 2.7%
Unemployment Rate	5.2% - 5.3%	5.0% - 5.2%
PCE Inflation	1.0% - 1.6%	0.6% - 0.8%
Fed Funds Target	1.125%	.625%

Source: FOMC

Puerto Rico Default Concerns Strengthen

Three members of Puerto Rico's House of Representatives have called for a referendum to effectively waive the current constitutional protection afforded general obligation bondholders, thereby opening the door for a broader restructuring of the island's debt. While the ultimate passage of this referendum may be unlikely, it highlights the deteriorating situation in Puerto Rico. Adding to concerns, Moody's stated they believe the Puerto Rico Electric Power Authority (PREPA) will, at best reach, a consensual restructuring with bondholders by July 1st, or, in the absence of any agreement, default on a debt service payment due that same day. Recent economic and tax revenue data released by Puerto Rico indicates a turnaround is not imminent.

Corporations Racing to Cash in on ECB Easing

In an effort to capitalize on the ECB's recently initiated bond buying program, corporations issued €77.5 billion of investment grade bonds between February 22nd and March 14th. This issuance volume now ranks as the 9th most active as measured over any three week period since 1999. The significant increase in the supply of corporate bonds has put some stress on the European market, with some new offerings having to be re-priced or downsized. Even spreads for high quality euro-denominated credits have widened by as much as 10-15 basis points in the last week. We should note that absolute corporate yields have remained relatively stable given the significant collapse in European benchmark yields following the announcement and initiation of the ECB easing program. For example, 10-year Bund yields halved in a matter of days, from close to 0.40% to below 0.20% since the ECB started buying.

MARKET UPDATE

Muni & Treasury Yields Lower Across the Curve

For the week, AAA Municipal yields largely tracked Treasuries lower across the curve, with 5Yr and 10Yr rates declining by 14bps and 22bps, respectively. At 1.21% the 5Yr AAA Muni is now 85.2% of 5Yr Treasuries, while the 10Yr AAA Muni remains above 100% of 10Yr Treasuries. Low absolute rates continue to benefit issuers looking to refund outstanding debt. According to BofA, year-to-date issuance is $90.3 billion, and refundings have represented a large 69% of the primary market compared to 51% for the same period last year. Supply for the upcoming week is expected to be $10 billion, including a $1.7 billion California Enhanced Tobacco Securitization refunding deal.

IGC Market Sees Third Lowest Weekly Volume YTD

Investment Grade issuance slowed last week, as only about $20.5 billion was priced from 28 issuers. It was the third lowest weekly issuance volume so far this year. The largest deal on the week was Tuesday's (3/17/15) $4.0 billion, 5 part deal brought by the German multinational chemical and pharma company Merck. Merck issued the debt through their EMD Finance LLC (MRKGR Baa1/A/A-). The deal will fund future mergers and acquisitions. Secondary trading in the Investment grade space has been very quiet, as a volatile week in rates brought out some investor patience. Spreads remain steady to slightly wider.

FIXED INCOME INDEX RETURNS

	MTD 3/20/15	YTD 3/20/15
Barclays 3Yr	0.02	0.45
Barclays 5Yr	0.00	0.84
Barclays 7Yr	0.21	1.17
Barclays MM Short 1-5Yr	0.00	0.52
Barclays MM 1-10Yr	0.20	1.01
ML US Gov/Corp 1-10 Yr	0.34	1.22

Source: Interactive Data

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