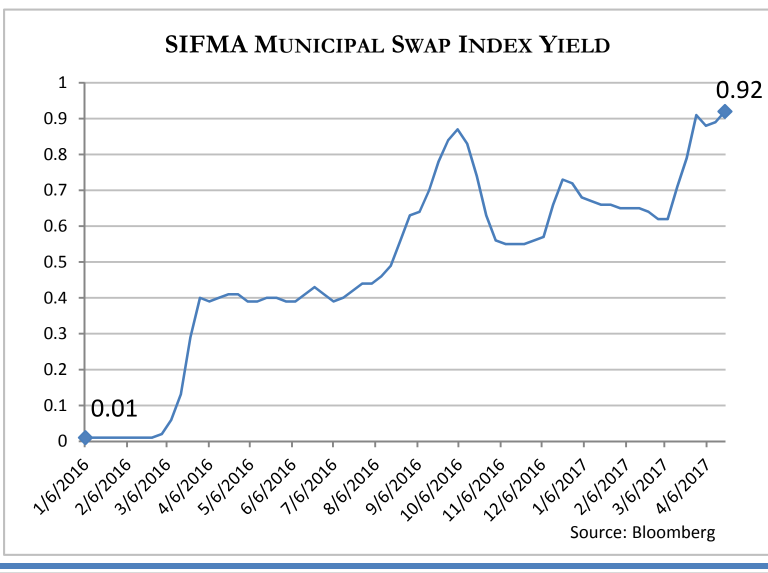
This Week in the Bond Market
04/24/2017

First Round in French Election Appeases Markets

- Over the weekend, Emmanuel Macron and Marine Le Pen advanced through the first round of voting in the French presidential election. Despite being largely anticipated, the result sparked a risk-on trade throughout financial markets as the major US equity indices gained over 1%. Macron, a centrist, is expected to defeat Le Pen, his far-right rival, by a wide margin in the final round of voting scheduled for May 7th. One French poll shows Macron leading Le Pen by 24 points, as a number of also-rans line up behind him. Although investors seem comforted by Macron's large lead in the polls, the situation bears watching given the track record of the Brexit and US presidential election prognostications.

Tax Season Increases Attractiveness of Tax-Exempt VRDBs

- Tax-exempt variable rate demand bonds have experienced a steady rise in yields the past few weeks, with the SIFMA index reaching 0.92% as of Wednesday, April 19th. This seasonality is common each April through early May as investors sell liquid holdings to meet tax liabilities.
- The end of tax season typically leads to yields retreating, but these short-term vehicles may remain attractive for some time based on a supply-demand imbalance.
- Following the advent of new SEC rules regarding money funds in October 2016, the natural purchaser of variable rate demand bonds, tax-exempt money market funds, experienced heavy investor redemptions. According to Moody's, those funds experienced a 46% decline in assets under management in 2016, finishing the year at $130 billion.
- Although other purchasers of VRDBs have stepped in, such as prime money market funds, short-term bond funds, corporations, and separate account managers, Moody's notes there are still $165 billion in VRDBs outstanding. This leaves a sizable gap between supply and the natural purchaser of the assets.
- Prior to tax season, SIFMA index rates remained steady in the low-to-mid 60's.



Muni Market Overview

- Yields on the Muni curve were lower over the week by 5bps in 5Yrs and 7bps in 7Yrs both in tandem with the treasury market.
- Issuance is expected higher than the weekly average of about $7 billion this week, at about $12 billion. Much of this increase is due to the almost $4 billion Kaiser Permanente (NR/AA-/A+) deal, which is coming with both taxables and tax-exempts. 30-day visible supply is also elevated at about $14.7 billion.
- Despite trending higher this week, issuance for the year is still lower by $13 billion from last year. For the month of April, we have seen $19.2 billion of issuance, which is below that of last April by about 17%.

Corporate Market Overview

- Issuance in the Investment Grade Credit market continues to be muted with only $25.45 billion of new debt coming to market. The impetus of this week's anemic session was due to the extensive blackout during earnings season. Financials were some of the first to report and, in doing so, immediately issued new debt.
- U.S. banks accounted for the majority of last week's new issue market with Bank of America issuing $6.75 billion on Wednesday and both JP Morgan ($5.25 Billion) and Citigroup ($4.5 billion) on Tuesday. Secondary trading was strong given the muted primary market and spreads remain steady.

Fixed Income Index Returns as of 04/21/2017

	MTD	YTD
Barclays 3Yr	0.33	1.60
Barclays 5Yr	0.81	2.72
Barclays 7Yr	1.14	3.11
Barclays MM Short 1-5Yr	0.45	1.81
Barclays MM 1-10Yr	1.02	2.72
ML US Gov/Corp 1-10 Yr	0.66	1.30

Source: Interactive Data

Appleton Partners, INC. One Post Office Sq. Boston, MA 02109 TEL. 617.338.0700 www.AppletonPartners.com