This Week in the Bond Market
5/16/2016

Headline News

Macro Data Continues to Tell Mixed Story

- After the Retail Sales and Producer Price Index (PPI) reports on Friday, market watchers are now assuming that the underwhelming 1Q GDP was an aberration like previous years, despite the lack of the severe weather excuse. Retail Sales were expected at 0.8% and came in above at 1.3% for April. The reasoning for the increase is not clear, but potentially due to retailers offering deep discounts. PPI came in at 0.2%, slightly shy of the 0.3% expectation. On Thursday, Initial Jobless Claims told a different story and were higher than expected, at 294k versus 270k, for the 3rd consecutive week. Initial Claims are at their highest level since February 2015.
- The mixed data releases may be limiting the Fed's ability to raise rates in 2016. At the beginning of the year, they were planning 4 rate hikes. Currently, market expectations for the next rate hike do not reach 50% before November, with many assuming it is likely the Fed will hold off until after the elections.

Date of Fed Meeting	Probability of Rate Hike
6/15/2016	14.0%
7/27/2016	29.5%
9/21/2016	47.8%
11/02/2016	51.2%
12/14/2016	64.6%

Source: Bloomberg

More Uncertainty for Affordable Care Act

- Last week a federal judge ruled that the Obama administration was improperly reimbursing health insurers that cover low-income customers, creating additional uncertainty for the Affordable Care Act (ACA) as we approach November's presidential election.
- House of Representative Republicans had brought a lawsuit challenging the White House's payments to the insurers, claiming that Congress never approved an appropriation for the subsidies. The federal judge agreed but stayed her ruling, allowing the administration the opportunity to appeal and avoiding an immediate impact to insurers and customers of the federal healthcare exchanges.
- However, if the ruling stands, it would most likely mean greater costs for consumers and/or weaker financial performance for insurers. Some large insurers have already stated their intention to withdraw from the exchanges citing weak economics.
- Although just one part of the ACA, the ruling could also lead to declining revenues for hospitals through lower reimbursements and a greater population of uninsured patients if some consumers choose to forego more expensive coverage.

Market Update

Muni Market Overview

- Treasuries rallied 5Yrs and out and municipal yields largely followed, keeping Muni/Treasury Ratios relatively stable. In the 10Yr part of the curve, Municipal yields dropped 3 bps to end the week at 1.54% and the 10Yr Muni/Tsy Ratio was up slightly to 90%.
- Investor demand remained strong with monthly and weekly reporting funds indicating $2.0 billion of inflows this past week, with $1.4 billion going to Long Term funds. This represents the 32nd consecutive week of inflows into municipal bond funds and year-to-date flows are a positive $24 billion.
- Issuance is expected to be approximately $11 billion this week. The largest deal is $2.5 billion for the New York Transportation Development Corporation (Baa3/BBB). Proceeds will fund a public-private-partnership to replace Terminal B at LaGuardia Airport.

Corporate Market Overview

- Last week's investment grade issuance began with a solid $25.6 billion start on Monday and finished the week just over $56 billion. The larger and most notable deals were brought by Abbvie Inc (ABBV Baa2/A-) and Chevron Corp (CVX Aa2/AA-). The 5 part, $6.8 billion deal brought by Chevron Corp came at +90 in 5 years. Although the deal got done, it was downsized from the original $8 billion that was planned. Investor appetite for energy debt is certainly diminishing. Over the course of the year energy companies have issued over $37 billion in new debt. Because of the increased issuance, secondary trading volume was low and spreads drifted slightly wider over the course of the week.
- The flattening trend continues to remain entrenched as treasury yields drifted lower 10Yrs on out. Both the 30Yr and 10Yr benchmark treasury dipped lower by 8 basis point to 2.55% and 1.70% respectively.

FIXED INCOME INDEX RETURNS AS OF 5/13/2016

	MTD	YTD
Barclays 3Yr	0.12	1.14
Barclays 5Yr	0.25	1.90
Barclays 7Yr	0.45	2.63
Barclays MM Short 1-5Yr	0.13	1.20
Barclays MM 1-10Yr	0.38	2.35
ML US Gov/Corp 1-10 Yr	0.30	2.72

Source: Interactive Data

APPLETON PARTNERS, INC. ONE POST OFFICE SQ. BOSTON, MA 02109 TEL. 617.338.0700 WWW.APPLETONPARTNERS.COM