

HEADLINE NEWS: LOOKING FOR A WEAKER Q1 GDP REVISION TOMORROW

- The FOMC meeting last week gave the markets what they expected and only nuanced changes in the forecast differentiated the message from the prior meeting. The forecast changes were expected: lowering the growth outlook for 2014 and lowering its projected unemployment rate to 6.0%-6.1%. However, the Fed Funds rate forecast in the out-years (2015 and 2016) was revised higher, ending 2016 at 2.50%, while the long-term normalized rate was lowered to 3.75% from 4.00%. The message is truly that the forecasts can and will change at every quarterly meeting.
- Speaking before the Economic Club in NY this morning, Charles Plosser, President of the Federal Reserve Bank of Philadelphia, predicted that: "Economic growth will exceed 2.4% for the remainder of this year and next amid steady growth in jobs. The inflation rate appears to be firming." With global rates remaining historically low, US Treasury rates are forced into the 2.50%-3.00% range, but if fundamental economic strength continues, rates will trend slightly higher into 2015.
- Funding of the Federal government's Highway Trust Fund has garnered media attention over the past few weeks, as lawmakers and officials are actively looking for solutions to maintain federal funding of state and local transportation projects. Senator Ron Wyden has mentioned a possible six month temporary solution and House Speaker John Boehner has also spoken of a twelve month stopgap. Formal proposals include reforming the corporate income tax code to generate revenues from non-US earnings, cost savings from eliminating mail delivery on Saturdays, and increasing the federal gas tax by 12 cents. While a long-term solution may be difficult to achieve politically, we expect this topic to be headline grabbing through the summer as the current funding authorization expires on September 30th.

| Date | Time | Indicator | Period | Consensus |
|-------------|----------|------------------------------------|--------|-----------|
| 23-Jun-2014 | 10:00 AM | Existing Home Sales | MAY | 4.730M |
| 23-Jun-2014 | 9:45 AM | Markit PMI - Manufacturing - Flash | JUN | |
| 24-Jun-2014 | 10:00 AM | Consumer Confidence | JUN | 83.5 |
| 24-Jun-2014 | 10:00 AM | New Home Sales | MAY | 0.440M |
| 24-Jun-2014 | 9:00 AM | S&P Case-Shiller Home Price Index | APR | |
| 25-Jun-2014 | 8:30 AM | Durable Orders | MAY | UNCH |
| 25-Jun-2014 | 8:30 AM | GDP Third Report | Q1 | -1.8% |
| 25-Jun-2014 | 9:45 AM | Markit PMI - Services - Flash | JUN | |
| 26-Jun-2014 | 8:30 AM | Personal Income | MAY | 0.4% |
| 26-Jun-2014 | 8:30 AM | PCE | MAY | 0.4% |
| 26-Jun-2014 | 8:30 AM | Continuing Jobless Claims | 06/14 | |
| 26-Jun-2014 | 8:30 AM | Initial Claims | 06/21 | 312K |

Source: FactSet

MARKET UPDATE: HIGH MUNICIPAL ISSUANCE IN FRONT OF EXPECTED SLOW HOLIDAY WEEK

- While municipals showed some volatility, yields ended the week basically unchanged with the 10Yr AAA MMD yield at 2.33%. The new issue calendar picks up this week to \$8.8 billion, as many issuers are likely coming ahead of the slow holiday week. 30-day visible supply is up to \$9.6 billion, which is higher than the weekly average of \$7.9 billion. The two headline deals, Dormitory Authority of NY Personal Income Tax (Aa1/AAA/AA+) and State of Washington (Aa1/AA+/AA+), are coming competitive, each with over a billion in several series.
- The combination of a short-end rally and weakness in the long bond drove the curve slightly steeper as we closed out the week. The 6 month T-bill dropped by almost 50% from .069% to .038% and the 30Yr T-note climbed higher by 2bps to 3.44%. The investment grade corporate market continues to be led by strong demand and a decent new issuance calendar. One notable deal from a week of about \$25.8 billion of issuance was Target (TGT A2, A, A-) who came with \$2 billion split into 10Yr and 5Yr maturities. Investment grade spreads remain steady.

| FIXED INCOME INDEX RETURNS | | |
|----------------------------|----------------|----------------|
| | MTD 6/20/14 | YTD 6/20/14 |
| Barclays 3Yr | -0.05 | 0.87 |
| Barclays 5Yr | -0.30 | 1.93 |
| Barclays 7Yr | -0.42 | 3.77 |
| Barclays MM Short 1-5Yr | -0.14 | 0.74 |
| Barclays MM 1-10Yr | -0.42 | 2.54 |
| ML US Gov/Corp 1-10 Yr | -0.47 | 1.63 |

Source: IDC

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

This commentary reflects the opinions of Appleton Partners based on information that we believe to be reliable. It is intended for informational purposes only, and not to suggest any specific performance or results, nor should it be considered investment, financial, tax or other professional advice. It is not an offer or solicitation. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. While the Adviser believes the outside data sources cited to be credible, it has not independently verified the correctness of any of their inputs or calculations and, therefore, does not warrant the accuracy of any third-party sources or information. Specific securities identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that investments in the securities identified and discussed were or will be profitable. Any securities identified were selected for illustrative purposes only, as a vehicle for demonstrating investment analysis and decision making.