HEADLINE NEWS: ECB EXPECTATIONS

- Later this week, the announcement after the ECB meeting on Thursday and the release of monthly employment data on Friday will do much to set the stage for rates as we wind down QII. The bond markets have enthusiastically anticipated an aggressive move by the ECB this week in their attempt to stimulate the Eurozone and combat deflationary pressures. An announcement of a QE-like strategy (asset purchases) and/or a move to negative deposit rates are built into today's levels, and the markets will be looking for some real follow through from Mr. Draghi on Thursday morning. Consensus has Non-Farm payrolls at 215,000 and the Unemployment Rate higher by 0.1% to 6.4%.
- Corporate borrowers are taking advantage of low absolute yields and the flattening of the yield curve by selling long-term debt. Bloomberg reports that global borrowers have raised a record $368 billion this year from maturities of 10 years or more. For the time being, there seems to be ample demand for longer-dated bonds from investors seeking higher yields and insurance/pension funds matching long-term assets and liabilities. Recent issuers of maturities of 20 years or more include Time Warner, Caterpillar, Hasbro, and Apple.

CREDIT OVERVIEW

S&P	MOODY'S
S&P announced that it sent letters to all 24,000 public finance issuers that it rates, requesting that they disclose the details of private direct loans or face adverse rating action. Issuers are required to account for the debt on their balance sheets, but the loan documentation is typically not released. As direct loans gain popularity, the concern is that terms of the private debt could be more stringent and could negatively affect public bond holders if covenants are triggered. The size of the direct loan market is difficult to quantify, but Municipal Market Advisors estimates direct purchases totaled $40 to $50 billion in 2013, or more than 13% of long-term municipal bond issuance.	Moody's released its annual State Debt Medians report this past week and the data reflects the trend we've seen in the broader municipal market – the appetite for borrowing remains weak. The growth rate of state debt outstanding slowed to 0.4% in 2013, the fourth consecutive year of decelerating growth and the lowest growth rate recorded by Moody's in 20 years. The agency anticipates that state debt growth will continue to be minimal in 2014 due to a reluctance to take on additional leverage. Uncertainties about economic growth and federal fiscal policy continue to dampen states' desire to increase debt issuance, despite a real need for capital investments.

MARKET UPDATE: SUPPLY EXPANDING

- While municipal supply is still below longer term averages, this week is more promising for buyers with about $7 billion coming in the new issue market. With the largest deal being the $431 million Regional Transportation District, CO (Aa3/A/A) and 14 other deals over $100 million, there is no single large deal dominating the market this week. MMA predicts that June will be the largest month of supply year-to-date. Furthermore, 30-day visible supply has jumped to almost $13 billion. The AAA MMD curve tightened across the yield curve, with 5Yrs down 2bps to 1.15% and 10Yrs down 4bps to 2.16%.
- Spreads on investment grade corporates widened slightly last week, as supply continued to build in QII. With net Treasury issuance down by 59% this year, investment grade corporate issuance has been robust as corporations seek to strengthen their balance sheets at low yield levels. With supply shrinking in Treasuries and growing in the corporate sector, there may be more opportunities to add value as spreads adjust to the supply/demand imbalance.

FIXED INCOME INDEX RETURNS

	MTD 5/30/14	YTD 5/30/14
Barclays 3Yr	0.30	0.92
Barclays 5Yr	0.66	2.23
Barclays 7Yr	0.87	4.20
Barclays MM Short 1-5Yr	0.32	0.88
Barclays MM 1-10Yr	0.68	2.97
ML US Gov/Corp 1-10 Yr	0.78	2.12

Source: IDC

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