APPLETON PARTNERS, INC.

THIS WEEK IN THE BOND MARKET 7/28/2014

HEADLINE NEWS: MARKET ANTICIPATES FED POLICY AND ECONOMIC RELEASES

- A flight from non-investment grade bonds appears to be gaining steam. In the week long period ending last Wednesday, Lipper reported a $2.38 billion outflow from taxable high-yield mutual funds and ETFs. This represents a significant acceleration from the previous week's $1.67 billion outflow. The Wall Street Journal also recently noted that the put-to-call ratio on the market's largest high-yield ETF has increased to its highest level since May of last year. The bearishness is likely driven by geopolitical concerns and uncertainty about changes in Fed policy, combined with the relative illiquidity in the high-yield market.
- The flattening trend of the US Treasury continued last week, as Thursday's initial jobless claims number drove short rates (2Yrs and in) a bit higher. The 30Yr dropped 5bps to end the week at 3.24%. A lot of focus will be on the slew of economic data being released this week, including Fed commentary, July Jobs, and preliminary second quarter GDP. Specific attention will be focused on the Fed's short-term rate forecast. We know that the Fed has specifically mentioned that it will not consider raising rates until inflation is in a range of 1.7%-2.0% and the unemployment rate is between 5.2%-5.6%. As of July 22nd, the annual inflation rate was 2.1% after a slower June and the US unemployment rate sat at 6.1%, even as soft spots remain. This could be a transitional week for rates in the near-term, but the Fed's dovish tone may prevail in the long-term.
- The City of Detroit released the voting results for its plan of adjustment, with little surprise that retirees and employees overwhelmingly approved the deal and a number of financial creditors, facing low-to-zero proposed recoveries, rejected the terms. The plan would eliminate approximately $7.4 billion of the city's $18 billion in liabilities it carried when entering Chapter 9. The votes are a precursor to a trial that begins on August 14th to discuss the city's plan and eventual exit from bankruptcy. With a number of major legal issues still left unanswered and a split among voters, a swift and easy confirmation trial is unlikely and the city's goal of exiting by October appears aggressive.

FIXED INCOME INDEX RETURNS

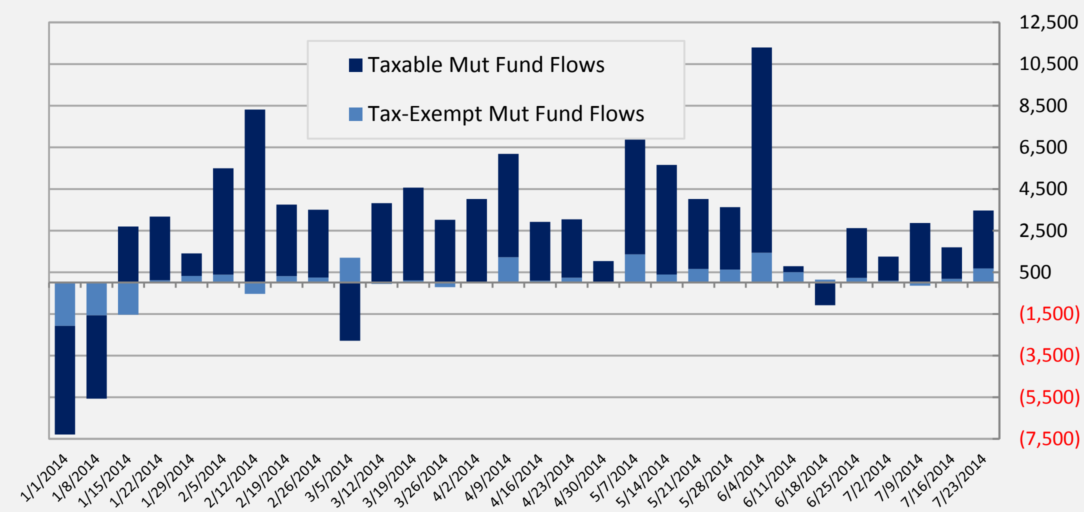
	MTD 7/25/14	YTD 7/25/14
Barclays 3Yr	0.08	1.12
Barclays 5Yr	0.13	2.43
Barclays 7Yr	0.28	4.52
Barclays MM Short 1-5Yr	0.10	1.05
Barclays MM 1-10Yr	0.30	3.24
ML US Gov/Corp 1-10 Yr	-0.03	1.99

Source: IDC

MARKET UPDATE: YIELD CURVE FLATTENS

- During the week, the Municipal yield curved flattened slightly, with 3Yr-7Yrs dropping 4bps and the 10Yr and 30Yr coming in 5bps and 7bps, respectively. Municipal funds had inflows again last week of $686 million to bring the YTD total to about $6.6 billion. Of the total for the week, $181 million came into intermediate funds. The new issue calendar drops this week to about $5 billion, which continues to challenge investors trying to buy bonds. The largest deal is $744M California State University (Aa2/AA-/NR), on which Barclays is lead underwriter.

2014 WEEKLY MUTUAL FUND FLOWS



Source: Lipper US Fund Flows

- Investment Grade Corporate issuance picked up after a short pause with $21.7 billion coming to market. This was the largest weekly volume in five weeks. Year to date volume stands at $865.55 billion. The most notable deal from the week was EBAY Inc. (EBAY A2/A/A) who tapped the market after a two year hiatus for $2.65 billion across 3 fixed rate tranches (3Yr, 5Yr, 10Yr). Spread talk did tighten significantly from initial spreads and the 10Yr maturity settled in to +100 to the US treasury benchmark. Investment grade spreads remain steady.

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