APPLETON PARTNERS, INC.

This Week in the Bond Market 8/10/2015

Headline News

Latest Employment Numbers Enough for Fed?

- Friday's nonfarm payrolls report came in at 215k, just shy of the survey of 225k. However, many believe the number is significant enough to justify a September liftoff by the FOMC, especially considering the two-month revision up 14k. Average Hourly Earnings (MoM) expanded by 0.2% and Unemployment was 5.3%, both of which were right in line with expectations. Looking forward, Retail Sales data will be released on Thursday and PPI on Friday.

Illinois Budget Stalemate Impacts Met Pier Bonds

- With political leaders at odds in passing a budget for this fiscal year, all state appropriations have been stalled except for those related to education. The lack of appropriations being made by the state stopped the monthly transfer of the tax revenue to the bond trustee that supports payment on the Metropolitan Pier & Expo Auth bonds, resulting in a 7-notch downgrade by S&P from AAA to BBB+.
- The lack of transfer represents a non-payment technical default. There is currently sufficient funds to make the next scheduled debt service in December 2015, but the vulnerability raised by the lack of appropriation shifted the rating agencies analysis on the bonds, tying the rating directly to the state of Illinois and its budgetary pressures.

Puerto Rico Conserves Cash

- In addition to defaulting on Public Finance Corporation bonds, Puerto Rico is suspending monthly deposits that are set aside for upcoming debt service on GO bonds. This has sparked more investor anxiety and reaffirms the severity of the Commonwealth's liquidity position.
- The next debt service payment due on GO bonds is January 2016, when $363 million is owed to creditors.

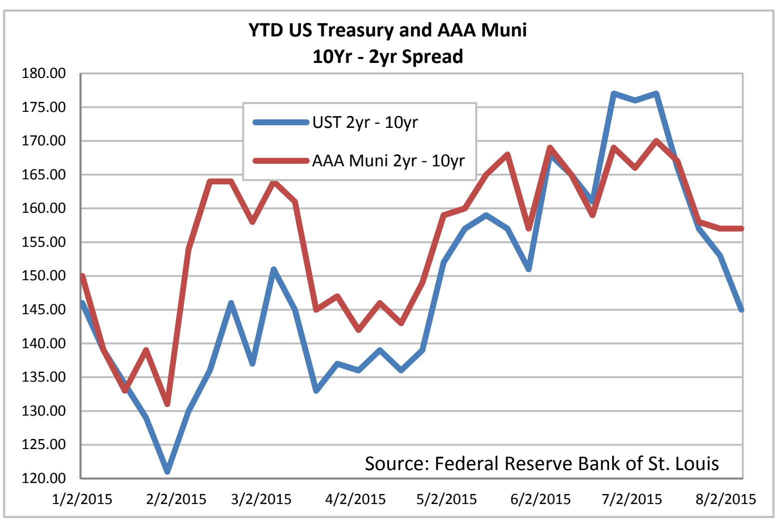
Wave of Leveraged Loan Maturities Expected in 2018

- According to a recent Moody's report, a large wave of leveraged loans refinancings is set to begin in 2018. Moody's highlighted that $90 billion of bank loans will be due to mature in 2018, up from just $16 billion next year, while the report also expounded on some of the potential risks involved with refinancing such a significant sum of maturities. For one, new regulations have pushed banks away from buyouts and leveraged loans. While nonbank participants (CLOs buy 50% of loans issued today) have filled the void thus far, it is unclear whether they will be able to generate $90 billion of demand.
- Moody's also highlighted the correlation between leveraged loans and a potential stock market correction. Due to the fact the highly leveraged companies typically have a very small equity cushion, any correction in the equity market could wipe out the equity value lenders would be looking for to refinance.

Market Update

Muni Market Overview

- Muni yields inside of 10Yrs shifted higher over the week, with the biggest move in 6Yrs up 7bps to 1.63%. 5Yrs and 7Yrs each increased by 5bps to 1.35% and 1.87%, respectively.
- Supply has dropped this week, with only about $5.5 billion in new issue supply. 30-day visible supply dropped to $8.5 billion versus the average of $11.2 billion. The largest tax-exempt deal of the week is a $475 million City of Charlotte, NC Water and Sewer Revs (Aaa/AAA/AAA) offering.



FIXED INCOME INDEX RETURNS AS OF 8/7/2015

	MTD	YTD
Barclays 3Yr	-0.02	0.70
Barclays 5Yr	-0.09	1.03
Barclays 7Yr	-0.10	0.80
Barclays MM Short 1-5Yr	-0.03	0.87
Barclays MM 1-10Yr	-0.07	0.90
ML US Gov/Corp 1-10 Yr	-0.08	1.19

Source: Interactive Data

Corporate Market Overview

- The spread widening trend continues in the Investment Grade space, as energy and commodities reach new lows. Overall, secondary trading volumes are mixed and new issuance has fallen off its average. Last week there was only $22.55 billion in issuance and the pipeline of new deals seems to be slowing, as we hit $1.053 trillion so far this year. A notable deal from last week was Celgene Corp's (CELG Baa2, BBB+, BBB) $8 billion issue across 5 different maturities. The bonds in 10 years priced at +185 with a coupon of 3.875%.

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