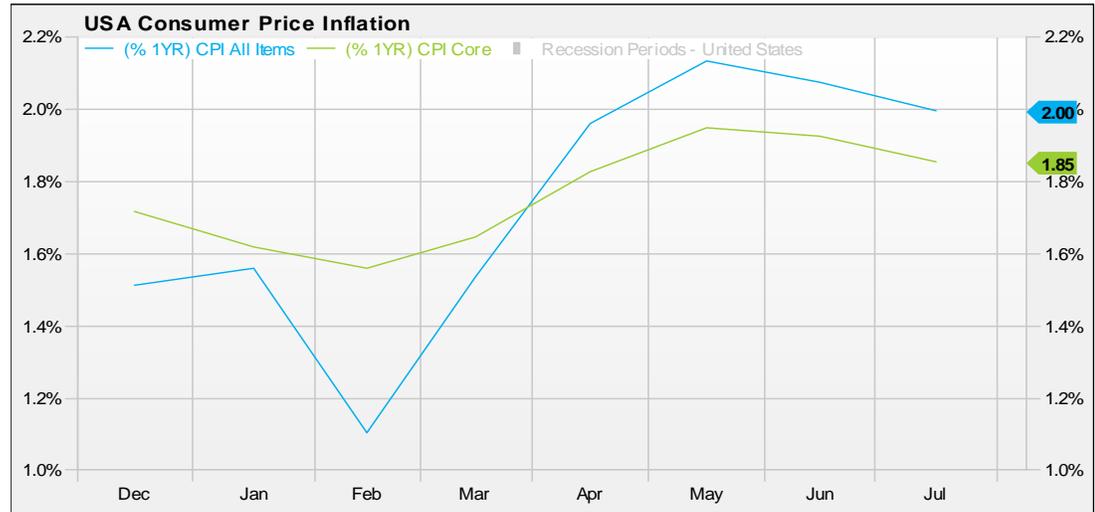


HEADLINE NEWS: FED EXPECTED TO FOCUS ON LABOR MARKET AT JACKSON HOLE SUMMIT

- Economic releases continued to be mixed last week. On Wednesday, Initial Jobless Claims came in at 311k, which was above the expected 295k. The labor market has been an unreliable indicator given that factors like the declining participation rate and an increase in part-time employment can seemingly skew the data for the better. On Friday, the PPI (Producer Price Index) was released and matched expectations. Meanwhile, the University of Michigan Survey of Consumer Confidence fell to 79.2 versus a 82.5 expectation and a prior 81.8, which represents a 9-month low and the largest negative surprise in a decade. The primary cause of the drop appears to stem from households' concerns that income will not keep up with the increase in inflation.

- In July, the Consumer Price Index (CPI) rose to +0.1% and 2.0% year-over-year as expected. July CPI ex Food and Energy was up 0.1%, 1/10th below the survey. For the remainder of the current week, the market will likely focus on Wednesday's release of the Fed minutes from the July 29-30 FOMC meeting, and Janet Yellen's Friday speech at the close of the Jackson Hole Summit. Given the apparent weakness in the EU, the markets will be looking for a signal from Mario Draghi indicating that he may actually deliver on a *QE-like package* to support the region.



Source: FactSet

- The Puerto Rico Electric Power Authority (PREPA) appeared to dodge another bullet as line of credit providers agreed to again extend the payment deadline, from August 14th to March 31, 2015. In addition, PREPA reached an agreement with bond insurers and bondholders, together representing 60% of outstanding debt, that will provide it both with access to liquidity and approximately six months to commence a strategic turnaround. Under the agreement, PREPA will have access to \$280 million, available in a construction fund, and will also be required to appoint a chief restructuring officer by early September. While the negotiations seems to have bought PREPA some breathing room, it may be overly-optimistic to assume that significant changes can be implemented in the next six months.

MARKET UPDATE: GEOPOLITICAL TENSIONS DRIVE FLIGHT TO QUALITY

- Treasuries rallied late last week following the news that the QII GDP in the EU was flat quarter-over-quarter. Treasuries continued to get an apparent boost as well from geopolitical uncertainty, declining rates in the EU (the German Bund broke below 1.00% last week), and mixed news on the economic front in the US. While investment grade credit has widened slightly since the "risk off"

trade has returned to the markets, the high-quality space seems to be trading less on fundamentals, which appear to remain sound, and more on resistance to valuation levels. This muted response is reinforced by positive fund flows in the space, with Taxable Fixed Income Funds seeing \$6.7 billion in inflows in the week ending 8/13, for a YTD total of \$90.7 billion.

- The Municipal yield curve flattened over the week with the 3Yr holding at 0.57%, the 7Yr lower by 4bps to 1.61% and the 10Yr lower by 6bps to 2.09%. Municipal bond funds saw further inflows of \$611 million for the week ending 8/13/14, bringing the year-to-date total to \$8.6 billion. On the supply side, the Municipal market has hit the August slump of scheduled issuance of just over \$4 billion this week. The calendar is largely dominated by high-grade names, with the largest deals being \$350 million San Diego, CA Regional Trans Commission (NR/AAA/AAA) and \$345 million Wake County, NC (Aaa/AAA/AAA).

FIXED INCOME INDEX RETURNS		
	MTD 8/15/14	YTD 8/15/14
Barclays 3Yr	0.13	1.25
Barclays 5Yr	0.48	2.92
Barclays 7Yr	0.72	5.14
Barclays MM Short 1-5Yr	0.22	1.28
Barclays MM 1-10Yr	0.62	3.78
ML US Gov/Corp 1-10 Yr	0.76	2.53

Source: IDC

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

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