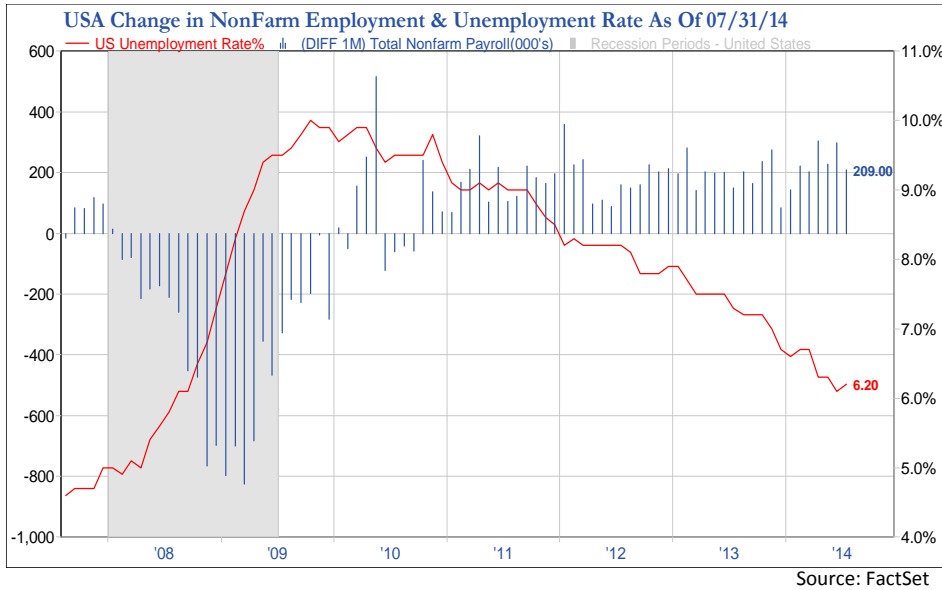


HEADLINE NEWS: MARKET CONUNDRUM: STRONGER DATA AND A DOVISH FED


- While the employment data had no surprises for the market, the GDP data and the Employment Cost Index (ECI) came in stronger than expected. Second quarter GDP was released on Wednesday at 4%, above the survey of 3%, and the first quarter number was revised up slightly to -2.1% from -2.9%. The market still seems to be questioning whether the contraction in the first quarter was indeed a weather anomaly or if the strength in this quarter is merely a reversal of this weather drag. Meanwhile, at the close of the FOMC meeting, the Fed tapered by another \$10 billion, and reinforced its stance on the timing and pace of rate hikes in 2015. On Friday, Nonfarm payrolls came in at 209k, under the survey of 230k, but the 6th consecutive month of over 200k payroll additions. The unemployment rate higher by a tenth to 6.2%.

- Last Thursday the Senate passed a House version of a transportation bill to replenish the Highway Trust Fund through May 2015, averting a possible shutdown in federal funding for state projects beginning in August. The bill provides \$11 billion in funding from pension smoothing provisions that will result in higher corporate tax revenues. The Highway Trust Fund, which is primarily funded with federal gas tax revenues, was set to hit a \$4 billion threshold in early August, prompting the US Transportation Secretary to warn that payments to states would be curtailed or delayed. While the restoration of federal funding is positive, the lack of a long-term plan seems to have mitigated states' appetite to begin large-scale projects.

MARKET UPDATE: REACTIONS TO STRONGER DATA CAUSED THE MARKETS TO FOCUS ON THE TIMING OF THE RATE HIKES – NOT THE BENEFITS OF ECONOMIC GROWTH

- Municipal yields were slightly higher over the week in the intermediate area of the curve, but market technicals still support lower rates. For the week ending 7/30/14, Municipal bond funds showed inflows of \$419 million and brought Year-to-Date total inflows to \$7 billion. To further the supply and demand imbalance, Municipal new issuance continues to be low again this week at \$6 billion. There are two issues over \$500 million: Illinois Finance Authority – University of Chicago (Aa3/AA/AA+) for \$750 million and Rhode Island Tobacco (NR/Various/BBB+) for \$593 million.
- U.S. Treasuries on the short end of the yield curve rallied by week's end, led by the 3Yr benchmark, which dropped 7.5bps to 0.92%. High quality Corporates generally tracked Treasuries. It was the lowest week of issuance all year for Investment Grade Corporates, at only \$7.6 billion. July ended the month with total volume of \$71.5 billion, less than half of the monster month of January's \$158 billion. August issuance is slated to be even lower than July. High Yield widened significantly in sympathy with equities to close out the month, and returns were negative across all ratings buckets in the HY sector. HY funds and ETFs lost assets, and general global uncertainty and tighter spreads supported the flight to quality.

FIXED INCOME INDEX RETURNS

	MTD 8/1/14	YTD 8/1/14
Barclays 3Yr	0.00	1.12
Barclays 5Yr	0.00	2.43
Barclays 7Yr	0.01	4.40
Barclays MM Short 1-5Yr	0.00	1.06
Barclays MM 1-10Yr	0.00	3.14
ML US Gov/Corp 1-10 Yr	0.26	2.03

Source: IDC

APPLETON STRATEGY SNAPSHOT

	6/30/2014 Market Yield	7/31/2014 Market Yield*	7/31/2014 Duration*
Short Muni	0.81	0.81	2.67 Yrs
4 Year Muni	1.11	1.11	3.45 Yrs
Intermediate Muni	1.58	1.59	4.67 Yrs
Long Term Muni	2.33	2.35	6.29 Yrs
Intermediate Taxable	1.80	1.95	3.79 Yrs

*The figures for the 7/31/2014 Strategy Composites are preliminary.
Source: Investortools Perform and FactSet

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.