

**HEADLINE NEWS**
**ECB Reduces Rates to Record Lows**

In an effort to spur inflation, the ECB cut the bank deposit rate from -0.01% to -0.2%, and it reduced its benchmark rate from .15% to .05%. The market was looking for was a QE-like announcement, which came in the form of an ABS purchase program (€500 Billion) that will be executed by Blackrock. The challenge here is that the ABS market in Europe is not deep and liquid, and therefore there will likely be a need to build the market up before a meaningful purchase program can have an impact. The Euro slid to the lowest level versus the dollar in almost 18 months (€1.30 range) following the announcement.

**Unexpected Weakness in August Employment Report**

Employment data can be a volatile series. In any case, the release (Non-Farm Payrolls increased by 142,000 versus expectations of 230,000) did little to change the bond markets on the day despite being the lowest increase since December 2013. However, the equity markets seem to have interpreted the weakness as a "positive" and traded up. Weakness in the labor market pushes out the perceived timeline of the Fed's need to raise rates, as the

role of the Fed carries huge weight in the equity market right now.

**Federal Reserve Bank of San Francisco Evaluates Public View of Fed Policy**

On Monday, the Federal Reserve Bank of San Francisco released a letter titled "Assessing Expectations of Monetary Policy." Their study concluded that the public may underestimate the uncertainty of interest rate projections because they discount the Fed's dependence on both current and incoming data. Further, the letter states that the public expects more accommodative policy than the FOMC participants.

**Moody's: Leverage Loan Market Weakens**

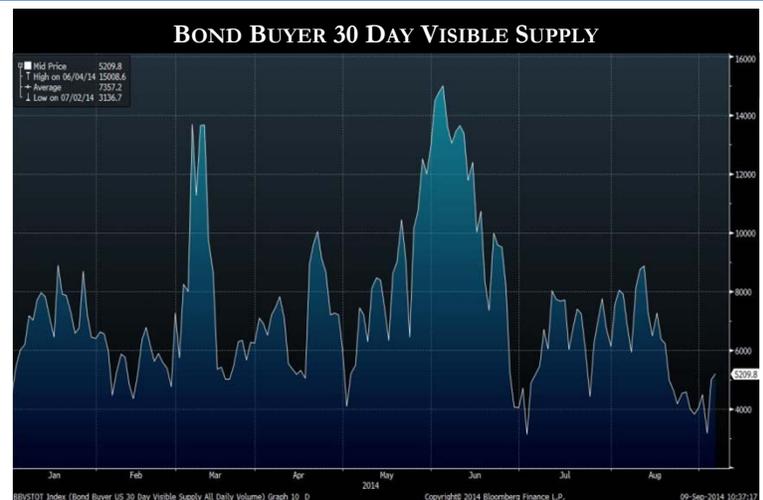
Moody's released a report this morning, stating that the percentage of debt carrying the weakest investor protections has climbed to 65% in the first half of 2014, versus 60% in 2013 and 42% in 2012. Bond covenant quality deteriorated "not only in the number of loans with sparser terms, but in the terms themselves." This is a market that saw over \$60 billion in inflows in 2013.

**MARKET UPDATE**
**Municipal Curve Shifts Higher**

The Municipal curve rose in step with Treasuries, putting the 5Yr up by 4bps to 1.12% and the 7Yr up by 7bps to 1.67%. Munis continue to be well bid in this low issuance environment. According to the Bond Buyer, YTD issuance is 12% lower than the same period last year at \$203.2 billion. However, with \$24.4 billion of long term Municipal debt issuance, August 2014 beat the same month in 2013 by 7%. The 30-day visible supply is \$5.2 billion and is below the weekly average for the year of \$7.4 billion. This week's calendar continues to be small with \$2.5 billion in long-term issuance. Outside of the \$2.8 billion State of California Revenue Anticipation Notes (RANs) scheduled for Wednesday, the largest deal is the \$372 million Chicago 2<sup>nd</sup> Lien Waters (A3/AA-/AA) bonds.

**Supply Returns to Investment Grade Corporate Market**

The summer lull ended last week with corporate bond issuance greater than the entire month of August. Thirty-seven issuers priced a YTD record \$58.1 billion in the shortened week. Also, the record for the largest daily issuance volume was set on Wednesday with \$24.25 billion placed in the market. One of the largest and most notable deals on the week was \$4.2 billion issued by the Bank of Tokyo-Mitsubishi (MUFG Aa3/A+/A+). If supply remains this robust through the rest of the month, the response in bond prices should be a good indicator of investors' ongoing support for corporate bonds. Many market prognosticators have noted that high-yield bonds are now yielding over 5%, which should help limit the risk of additional outflows going forward.


**FIXED INCOME INDEX RETURNS**

	MTD 9/5/14	YTD 9/5/14
Barclays 3Yr	-0.02	1.33
Barclays 5Yr	-0.06	3.09
Barclays 7Yr	-0.19	5.16
Barclays MM Short 1-5Yr	-0.04	1.36
Barclays MM 1-10Yr	-0.19	3.77
ML US Gov/Corp 1-10 Yr	-0.22	2.22

Sources:  
Bloomberg and  
InvestorTools  
Perform

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

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