STATEMENT RELEASED FROM THE JUNE MEETING:

The release of the Fed Statement yesterday and Fed Chairman Ben Bernanke's press conference were considered to be the single biggest market event of the week, and the Fed did not disappoint. Speaking to the press, Bernanke reiterated the intention to maintain the Fed Funds rate well into 2015, and also indicated that the Fed is prepared to start winding down asset purchases later this year, and possibly ending the program in mid-2014 *if the economic recovery gains enough strength*. However, Bernanke was careful to state that no set decision is in place, and they will continue to closely monitor the state of the recovery in order to steer policy. Markets responded aggressively to the news, with the 10Yr Treasury spiking to a new 52-week high and the S&P 500 dropping nearly 3% by mid-day Thursday following the Chairman's comments. Based on these comments and the Fed statement released after yesterday's FOMC meeting, we have the following observations:

- The statement largely reinforced what the markets already knew and what the Fed had stated after the recent May 1st meeting:
    - Based on the Fed's current read on the economy and their predictions for future growth, the current asset purchases are still appropriate and the Fed Funds rate will remain at 0% to .25% into 2015
    - The economy is showing some signs of strength (downside risks diminishing)
    - The Housing sector is in recovery
    - Fiscal Policy is impeding economic growth
- The markets' nervous anticipation of life without the Fed has pushed bond yields into a higher trading range, but with the short end anchored, the steep curve will continue to benefit from the roll down effect, particularly in the short to intermediate areas of the curve.
- In general, the markets are now more vulnerable to weak data, as the Fed's economic scenario will now be subject to interpretation with each new data release. In addition to an uncertain future here, the global recovery in Asia and Europe remains tentative.
- Given the evidence we see in the economy today, there is a strong likelihood that the 2nd half of 2013 will see rates reacting to lower-trending inflation.
- While the bond markets have had a dramatic move in a short period of time, particularly in the long end, the ability of a premium coupon to offset price degradation over a period of months, and not weeks, will at least partially offset this move.
- Volatility in the longer end of the yield curve will increase as the market becomes more "data dependent," but the fundamentals do not call for appreciably higher rates in the near term, and a positive market correction becomes as or more likely than a consistent climb to higher rates.

> ***"If you draw the conclusion that I just said that our policies -- that our purchases will end in the middle of next year, you've drawn the wrong conclusion, because our purchases are tied to what happens in the economy," he said. "If the economy does not improve along the lines that we expect, we will provide additional support."***
> *-Fed Chairman Ben Bernanke*
> *June 19, 2013*

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