

**HEADLINE NEWS: STATE INCOME TAXES DISAPPOINT**

- The expectation that income taxes would drop dramatically this April compared to last year's tax rate-driven increases appears to be playing out. A handful of states have reported that collections in the month of April are down from last year, and in some cases, markedly. Most states had forecasted lower collections, but others have failed to adequately account for the level of decline, placing pressure on some state budgets as fiscal 2014 comes to an end. One noteworthy state that prudently budgeted for reduced personal income taxes and actually outperformed for the month: California.

**APRIL 2014 PERSONAL INCOME TAX REVENUES (IN THOUSANDS)**

State	Actual	Estimate	Actual v. Est (%)	April 2013	Year-Over-Year
Kansas	226,033	315,606	-28.4%	453,181	-50.1%
Vermont	131,600	154,510	-14.8%	161,330	-18.4%
Nebraska	280,311	319,088	-12.2%	414,892	-32.4%
West Virginia	285,529	323,000	-11.6%	337,474	-15.4%
Pennsylvania	1,826,039	2,011,700	-9.2%	1,911,195	-4.5%
Idaho	295,201	317,614	-7.1%	337,405	-12.5%
Massachusetts	2,004,000	2,135,000	-6.1%	2,216,000	-9.6%
Arkansas	466,600	496,700	-6.1%	568,300	-17.9%
Indiana	825,200	848,800	-2.8%	957,700	-13.8%
California	10,953,868	10,871,000	0.8%	12,470,983	-12.2%

Source: Multiple States' Departments of Revenue

- Last week, CPI and PPI were both released above consensus indicating that inflation might be closer to the Fed's 2% target. However, real wages have been decreasing, which suggests that inflation may not actually be taking hold. On Wednesday, the Fed will release the minutes from the April 29-30 FOMC meeting which will likely not offer any clarity.
- According to Fitch, financial institutions made significant gains in market share in the first quarter of 2014. In the first quarter, the outstanding principal of bonds issued by financial institutions expanded by 4% to \$1.42 trillion while industrial issues grew just 2%. Despite the surge in financial activity to start the year, financial issuance is still well off the peak of \$1.9 trillion reached in 2007, prior to the financial crisis. Increasing issuance has come at more issuer-friendly terms, the average financial-bond coupon declined to 4.8% at the end of March from 4.9% at year-end 2013 and 5.1% a year earlier.

**MARKET UPDATE: CREDIT SPREADS REMAIN TIGHT**

- The Municipal yield curve tightened beyond 10 years by at least 10bps to flatten the yield curve as yields in 5 Yrs tightened by 5bps. Ratios moved minimally since Treasuries tightened, as well. The calendar for the week is \$5.7 billion for Municipals and we expect it to be significantly reduced next week due to the holiday on Monday. The 30-day visible supply is above the YTD average at about \$9 billion.
- Last week started off with a bang as nearly \$16 billion of Investment Grade issuance tapped the market. Domestic Financials made up about \$10 billion of that volume and continue to be amongst the most active sectors. Despite a hefty calendar, credit spreads hang in there with the BofA Merrill Corporate Master Index holding steady at the YTD tight OAS level of 113bps. The YTD high OAS is 132bps. The most notable deal of the week was Pfizer (PFE A1/AA/A+), who issued \$4.5 billion in a five part deal on Monday.

**FIXED INCOME INDEX RETURNS**

	MTD 5/16/14	YTD 5/16/14
Barclays 3Yr	0.20	0.81
Barclays 5Yr	0.48	2.05
Barclays 7Yr	0.70	4.03
Barclays MM Short 1-5Yr	0.20	0.76
Barclays MM 1-10Yr	0.53	2.82
ML US Gov/Corp 1-10 Yr	0.54	1.88

Source: IDC

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

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