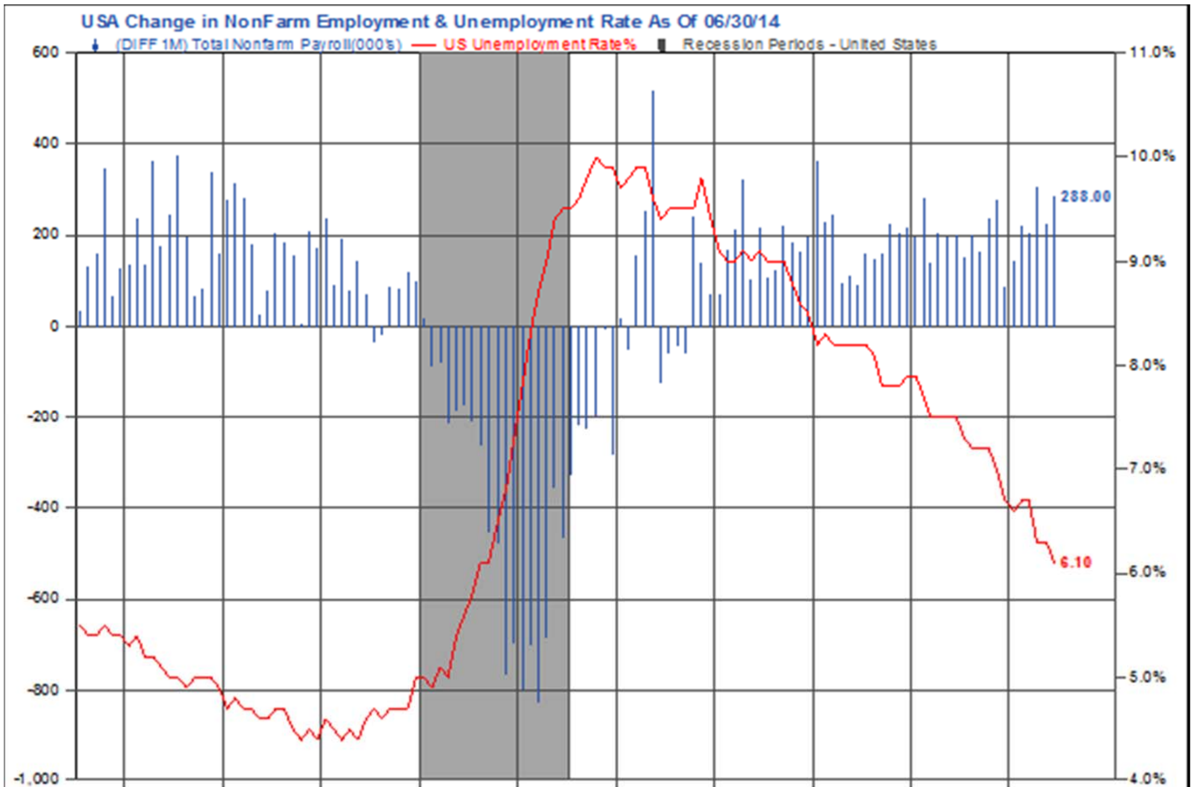
APPLETON PARTNERS, INC.

This Week in the Bond Market
7/7/2014

Headline News: Positive Trend in Labor Market

- The short week was flush with economic releases, most notably nonfarm payrolls which came in at 288k, better than the 215k consensus and well over the monthly average for the year of 230k. The trend for payrolls is positive as the 12-month average is up to 208k, which is the highest since May 2006. The unemployment rate was released at 6.1% which is below the 6.3% survey and the lowest since September 2008. While the recent economic releases seem rosy, market participants continue to question wage growth and the participation rate.



Source: FactSet

- Bank loan funds just concluded a difficult quarter. After investors dumped $57 billion into U.S. bank loan funds in 2013 and added another $6.7 billion in the first three months of 2014, sentiment swung the other direction and investors withdrew $5.7 billion in the most recent quarter. The Fed has likely been a key driver of outflows in two ways – first, in hints that underwriting standards may be getting frothy in the loan market, and second, by increasingly supporting the notion that interest rates will remain low for an extended period of time.

Market Update: Yield Curves Steeper for the Week

- Municipal yields got cheaper across the curve last week with the 5Yr ticking up 7bps to 1.27% and the 10Yr increasing by 9bps to 2.35%. The steepening yield curve may have been mitigated by the thinly traded market during the holiday shortened week. The calendar is light again this week with about $3.4 billion in new issuance. The larger deals include Massachusetts Port Authority (Aa3/AA-/AA) bringing $251 million in a negotiated deal and State of Wisconsin (Aa2/AA/AA) with $254 million in a competitive deal.
- The US Treasury benchmark 3, 5, 10, & 30Yr bonds rose about 11bps in unison on the week, reversing the flattening in recent weeks. Most of that move was due to the Strong ADP report on 07/02/14 and nonfarm payrolls on Thursday. Last week's $16 billion Investment Grade issuance was mostly due to Oracle's (ORCL A1/A+/A+) $10 billion deal. The deal was spread across seven maturities and was well received. Pricing on the deal was 10bps tighter than initial price talk. Secondary trading continues to be slow and most of the focus remains in the new issue space. Credit spreads remain unchanged.

FIXED INCOME INDEX RETURNS

	MTD 7/3/14	YTD 7/3/14
Barclays 3Yr	-0.11	0.92
Barclays 5Yr	-0.23	2.06
Barclays 7Yr	-0.35	3.87
Barclays MM Short 1-5Yr	-0.13	0.82
Barclays MM 1-10Yr	-0.29	2.64
ML US Gov/Corp 1-10 Yr	-0.41	1.61

Source: IDC

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