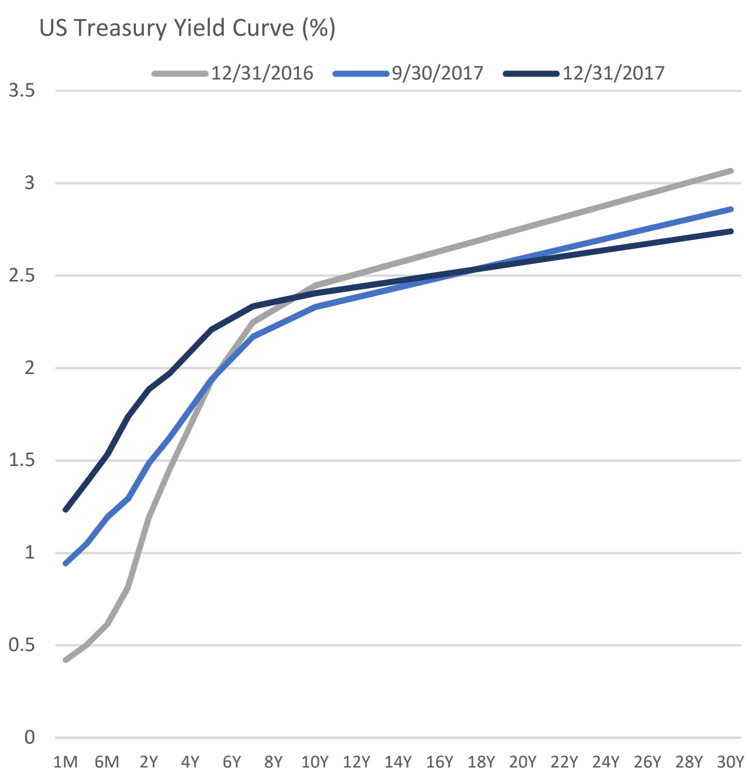
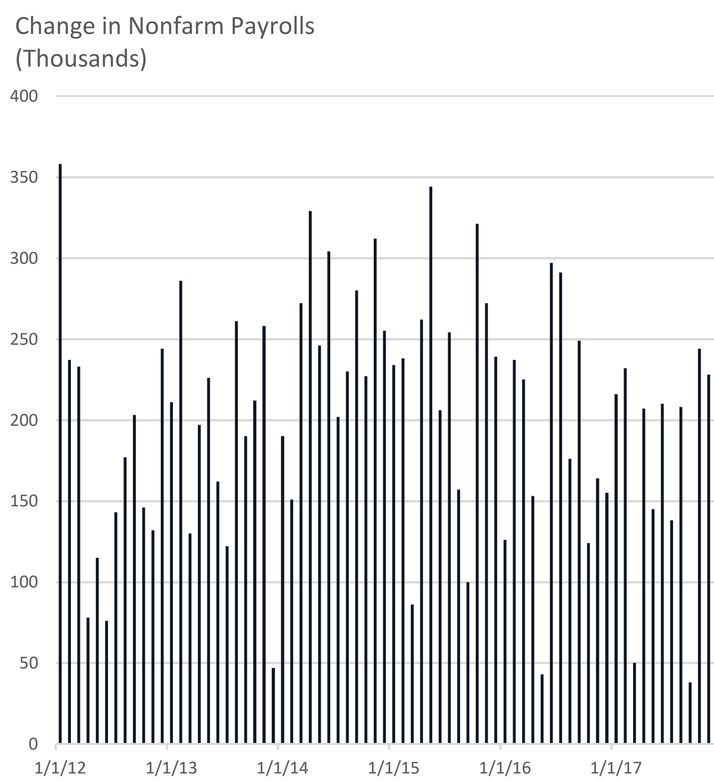
INSIGHTS & OBSERVATIONS

ECONOMIC, PUBLIC POLICY, AND FED DEVELOPMENTS

- ***As expected, the FOMC raised overnight rates to a range of 1.25-1.50% on December 12th***. While noting inflation remains low, the Fed reiterated their belief that it will return to the 2% target over the medium term, citing increased household spending and business investment, along with a strengthening labor market. In her press conference, retiring Chair Janet Yellen indicated she believed the economy would achieve target inflation in 2020. Evans and Kashkari were dissenting votes, citing concerns over insufficient inflation.
- This meeting marked Yellen's last before Jerome Powell assumes the Chair in February. With Yellen's departure and Powell's promotion, there will be five openings on the nine person FOMC that are expected to be filled in 2018. President Trump has an opportunity to significantly effect the tone of the FOMC if he chooses to do so in 2018, although his choice of Powell suggests he does not currently intend to tilt the Committee in a more hawkish direction. As depicted below, rates on the front end of the curve have moved higher, while longer rates remain flat.
- While the December month end jobs report came in stronger than expected at 250k versus consensus 240k, average hourly earnings grew a modest 0.3%. Earnings on a year-over-year basis rose by 2.5%, somewhat softer growth than anticipated earlier in Q4. With the unemployment rate at cyclical lows of 4.1%, wage growth remains sluggish despite an economy that appears to be running near full employment. CEO surveys provide anecdotal evidence that wage pressures may be beginning to increase, but that pressure is not yet visible in Bureau of Labor Statistics employment reports.
- Final Q3 GDP remained strong at 3.2%, revised down 0.1% primarily due to weak consumer services spending. Personal consumption rose 0.6% in November, a tenth higher than forecast, which should provide support for Q4 GDP. The Bloomberg mean forecast calls for 2.7% Q4 growth. ***Slow but steady economic growth with very modest inflation remains in place.***
- ***We view this as a favorable fixed income backdrop, with yields likely to remain in a relatively narrow range.*** Nonetheless, we will continue to monitor global inflationary pressures.



Source: Bloomberg

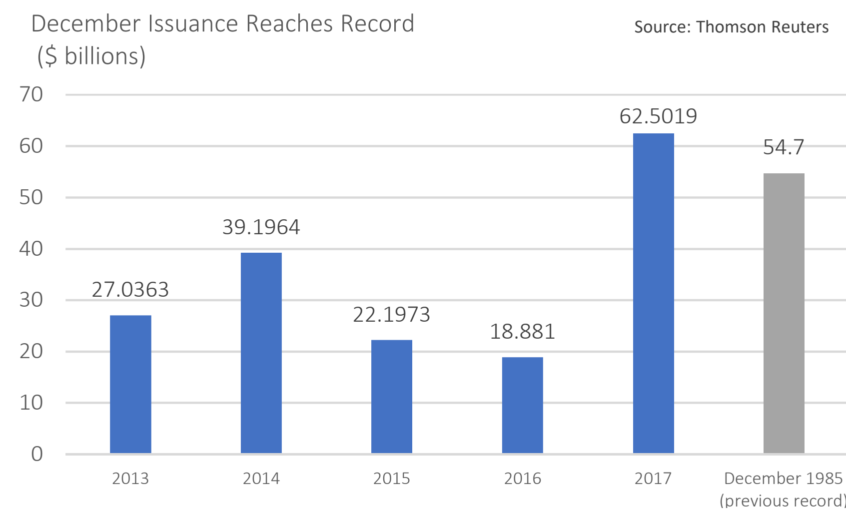


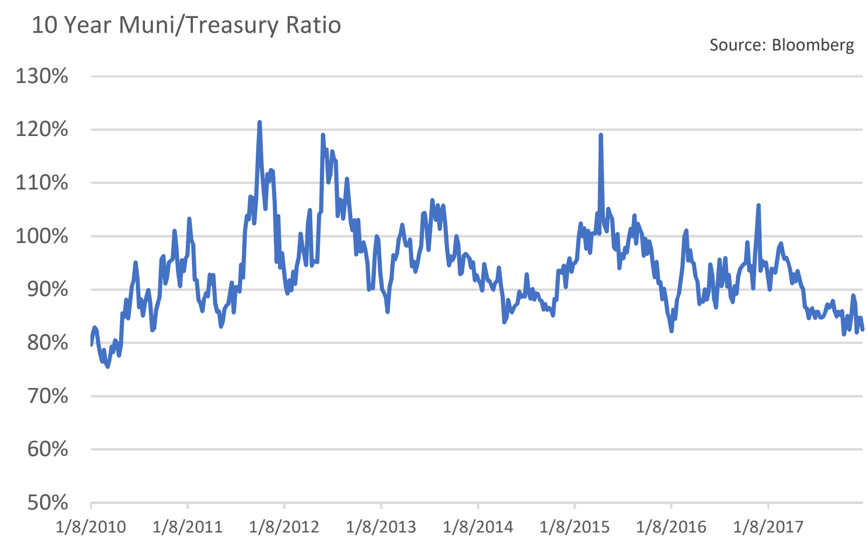
Source: Bloomberg

FROM THE TRADING DESK

MUNICIPAL MARKETS

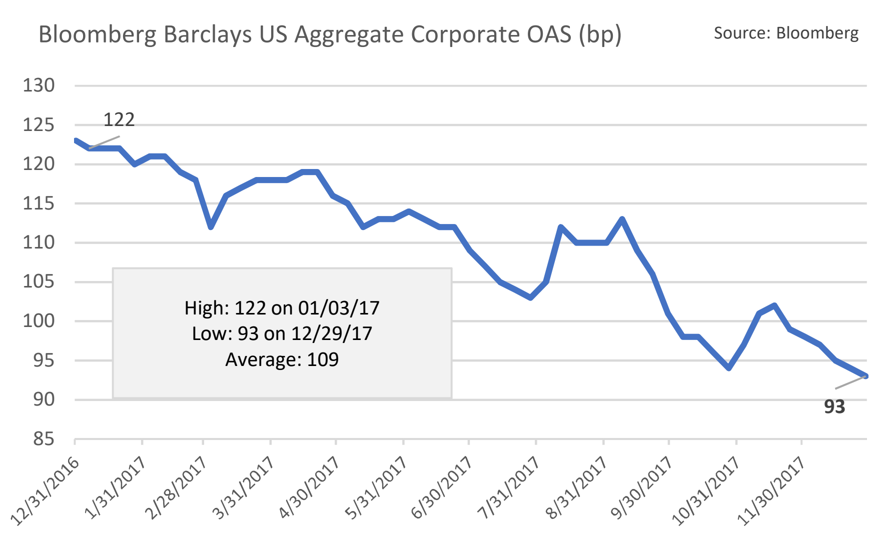
- ***The muni curve flattened over the month of December and the course of 2017.*** At the start of 2018, the spread between 2Yrs and 10Yrs had fallen to only 49 basis points, as compared to 59 basis points at the beginning of December and 125 basis points at this time last year.
- Further pressure on the steepness of the municipal yield curve could come from additional anticipated FOMC rate hikes. ***Currently, the market implied probability of a March hike exceeds 70%. This aligns with our expectation.***
- We expect a supply and demand imbalance stemming from limited expected muni issuance given a rush to market ahead of year-end tax reform. According to the Bond Buyer, 30-day visible supply is $3.9 billion, significantly below the 2017 weekly average of $11 billion. December issuance of $57.5 billion broke the single month record of $54.7 billion set in 1985.
- ***Given these market dynamics, we see the greatest value in the 7 to 10 year range of the curve.*** Our view is premised on an inflation expectation largely in line with the current Fed outlook and perceived relative value versus other fixed income assets.





CORPORATE MARKETS

- ***Investment Grade spreads ended 2017 at the tightest levels since 2007.*** The Bloomberg Barclays US Aggregate Corporate OAS index began the year at 122 basis points and, despite intermittent volatility, declined over the past year to only 93 basis points.
- ***Our outlook for Investment Grade Credit remains cautiously positive*** as we move forward in 2018. Security selection remains paramount given where credit spreads currently sit, although the new tax reform bill will benefit corporate balance sheets. Issuance is also expected to be lighter than the last couple of years.



PUBLIC SECTOR WATCH

TAX REFORM

- The House and Senate's reconciled tax reform legislation included a ***$10,000 cap on the ability of taxpayers to deduct state and local taxes.*** The impact on issuers may not be immediate, but ultimately the cap could limit the potential for tax increases, particularly in jurisdictions with above average state and local tax burdens.
- Per 2015 IRS data (the most recent available), ***nearly 30% of U.S. taxpayers itemized state and local tax deductions***. In high-wealth, high-tax states, such as Connecticut, Maryland and New Jersey, the percentage exceeded 40%. Furthermore, the average taxpayer deduction was higher than the new cap in 22 states, led by New York's average deduction of $22,169.
- ***Although the credit implication to issuers is a potential risk, we expect increased demand for municipal bonds in high tax states***, as fewer alternatives to shield tax liabilities will exist post-reform.

CREDIT COMMENTS

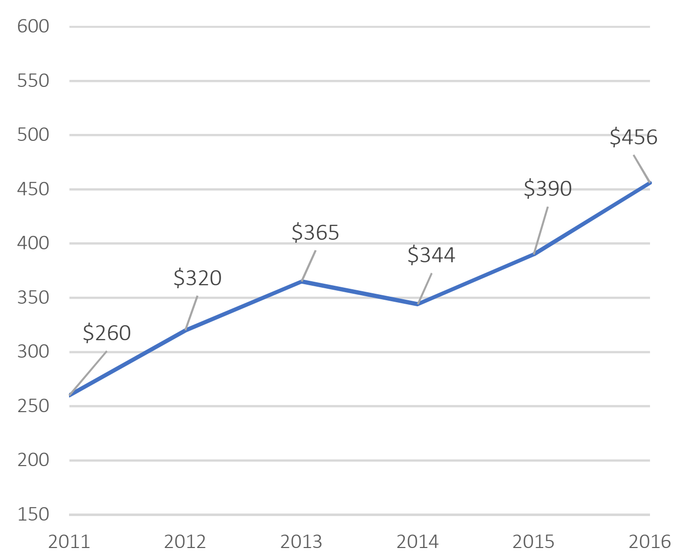
- ***Moody's reports that net pension liabilities rose in fiscal 2016 for 42 of the 50 largest local governments,*** as weak investment returns (2015-2016), inadequate contributions, and declining discount rates led to a 16.9% growth in the agency's in-house calculations. We note that Moody's uses a discount rate that is derived from a taxable bond index, which is materially lower than discount rates utilized by issuers to calculate their pension liabilities. This tends to result in significant differences between Moody's and other reported figures. Ultimately, Moody's report reflects the well-known and growing burden on local governments of funding employee pension liabilities.
- Appleton's research process continues to monitor and evaluate pension and OPEB liabilities, among other factors, in our security analysis. ***We are attuned to the public pension funding gap and view it as a credit concern.***

States with Largest Average SALT Deduction

State	Avg. SALT Deduction	% of Filers Claiming SALT Deduction
New York	$22,169	34.5%
Connecticut	$19,665	41.3%
California	$18,438	34.4%
New Jersey	$17,850	41.2%
District of Columbia	$16,443	39.8%
Massachusetts	$15,572	36.9%
Minnesota	$12,954	34.7%
Maryland	$12,931	45.7%
Oregon	$12,617	36.0%
Illinois	$12,524	31.3%
United States	$12,471	29.6%
New Cap	$10,000	

Source: IRS Tax Year 2015, Pew Charitable Trusts

Moody's Total Net Pension Liabilities ($billions)
50 Largest Local Governments

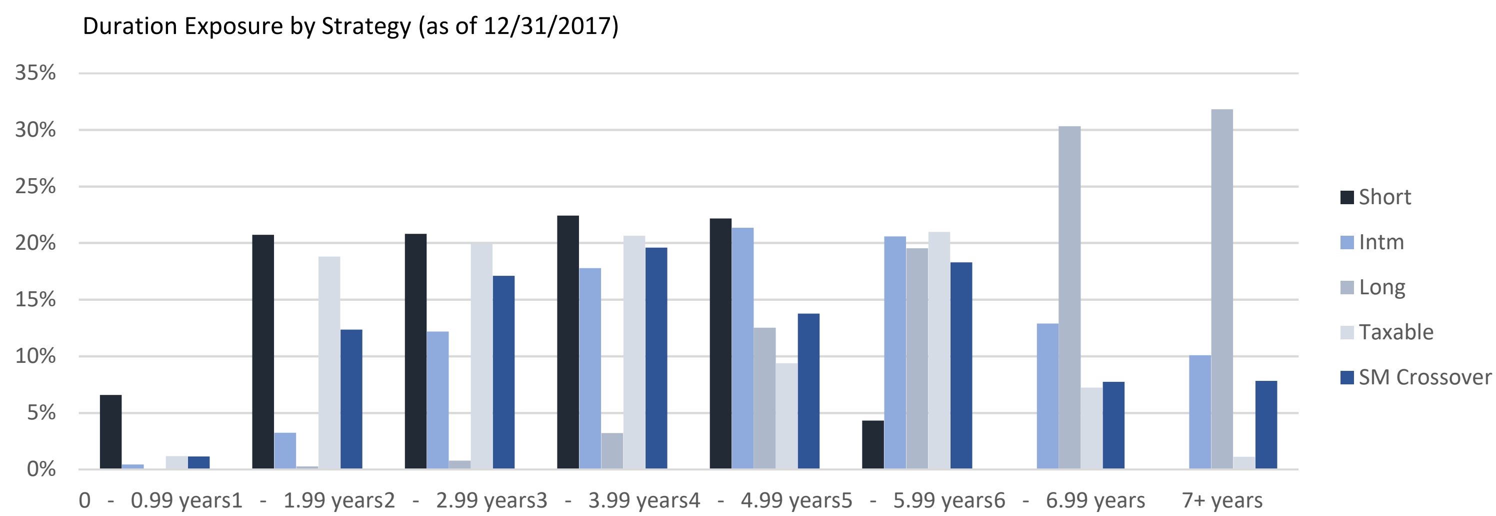


Source: Moody's Investors Service

STRATEGY OVERVIEW

PORTFOLIO POSITIONING (AS OF 12/31/2017)

	Short Municipal	Intermediate Municipal	Long Duration Municipal	Taxable Fixed Income	Strategic Muni Crossover
Average Modified Duration	2.86 years	4.64 years	6.18 years	3.77 years	4.08 years
Average Maturity	3.21 years	6.11 years	10.90 years	4.25 years	5.15 years
Yield to Worst	1.69%	1.88%	2.22%	2.47%	2.14%
Current Yield	4.27%	4.23%	4.14%	3.76%	4.20%
Average Quality	AA+	AA	AA	AA-	AA-



Source: Investortools Perform, Appleton Partners, Inc.

OUR PHILOSOPHY AND PROCESS

- Our objective is to preserve and grow your clients' capital in a tax efficient manner.
- Dynamic active management and an emphasis on liquidity affords us the flexibility to react to changes in the credit, interest rate and yield curve environments.
- Dissecting the yield curve to target maturity exposure can help us capture value and capitalize on market inefficiencies as rate cycles change.
- Customized separate accounts are structured to meet your clients' evolving tax, liquidity, risk tolerance and other unique needs.
- Intense credit research is applied within the liquid, high investment grade universe.
- Extensive fundamental, technical and economic analysis is utilized in making investment decisions.

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