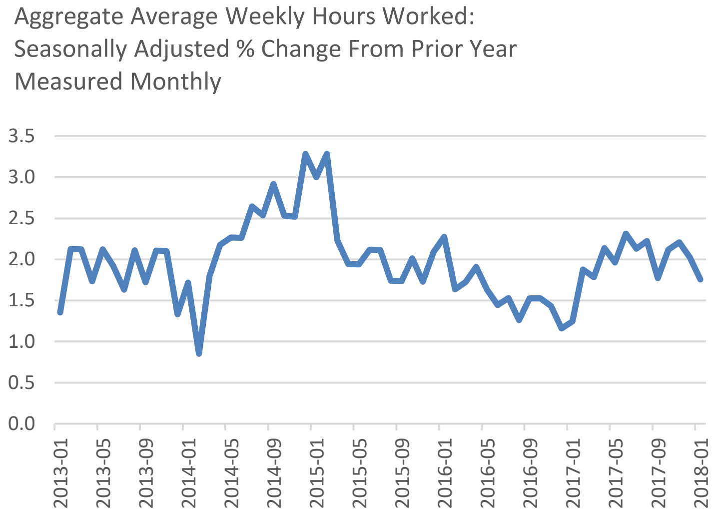
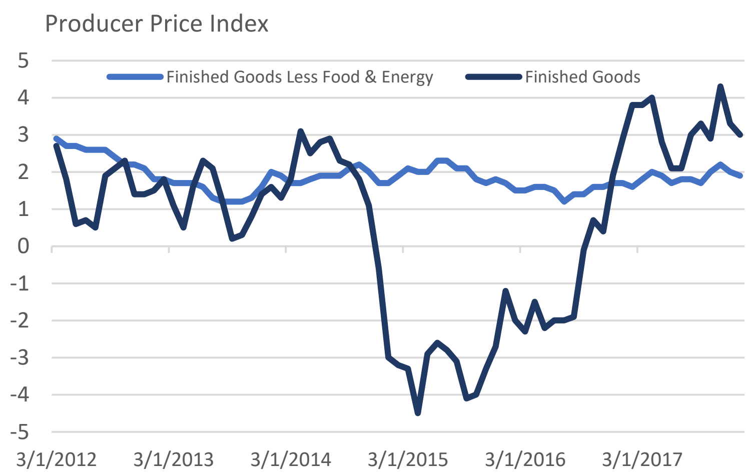
INSIGHTS & OBSERVATIONS

ECONOMIC, PUBLIC POLICY, AND FED DEVELOPMENTS

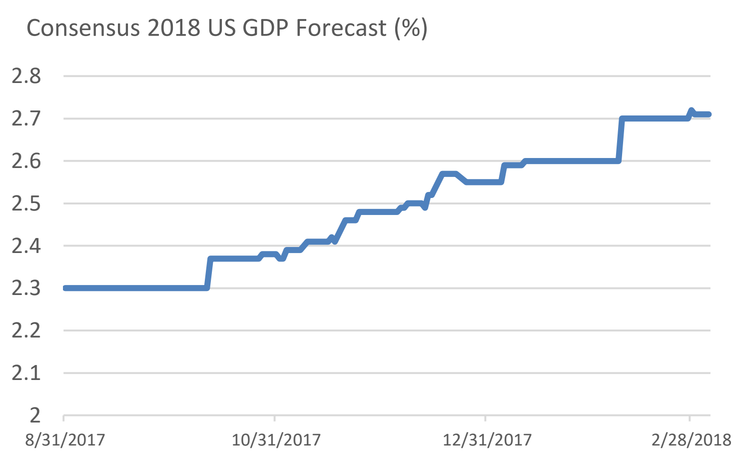
- ***February was dominated by contrasting interpretations of growth, inflation, and Fed policy expectations.*** An increase in average hourly earnings of 2.89% at the start of the month sparked inflation fears and rattled the markets. Long Treasury yields spiked, and the equity markets plummeted. The Dow fell 1,600 points on February 5th, the largest intraday drop in absolute terms in Dow history. However, a deeper look at the data revealed a somewhat different picture, with a contracting average hourly workweek, along with a decline of 0.5% in average aggregate hours.
- ***The February seasonally adjusted PPI (+2.7% year-over-year) report aggravated similar inflationary concerns***, as did a consumer confidence reading of 130.8 that represented a 17-year-high. Industrial data mitigated some of these worries, with an unexpected weakness in durable goods orders revealing a potential gap between business and consumer expectations.
- In the midst of all the economic debate, Jerome Powell's first Humphrey-Hawkins testimony on February 27th went largely without event. ***Powell's commitment to a gradual increase in short term rates is essentially unchanged from Chairperson Yellen's, and a short term rate hike at the March 21st Fed meeting remains all but certain.*** Meanwhile, the futures market implied likelihood of a Fed Funds rate hike in June has increased from 61.1% at the end of January to 69.1%.
- President Trump added a major wildcard to the picture on March 1st when he announced an intention to impose stiff tariffs on imported steel and aluminum. This shook up already volatile markets and, at this point, it is difficult to ascertain how it will ultimately play out. ***Tariffs introduce considerable economic risk and uncertainty, including the likelihood of provoking retaliatory measures that could harm global growth.*** We have seen political and economic backlash that may help moderate the eventual policy, although the pending resignation of Gary Cohn announced on March 6th sparked further concern.
- ***In the face of this complicated backdrop, we continue to feel that the market overreacted to early February wage data.*** Our baseline expectation is that 2018 growth will likely be in a 2.50 - 3.0% range, with inflation close to the Fed's 2.00% target. As such, ***we foresee 2 to 3 Fed Funds rate hikes in 2018, the first coming later this month.***



Source: Federal Reserve Bank of St. Louis



Source: Bloomberg

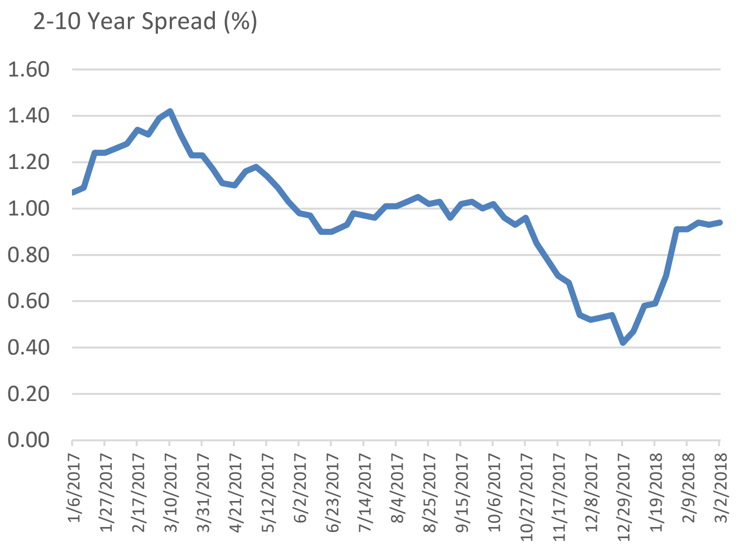


Source: Bloomberg

FROM THE TRADING DESK

MUNICIPAL MARKETS

- Over the course of February, the 2 to 10Yr municipal curve steepened from 80 basis points to 95 basis points, tracking the Treasury curve. We anticipate a very modest level of further Treasury steepening as the long end reacts to steady growth and modest inflation. The 10Yr Muni/Treasury ratio has remained relatively stable at roughly 85%, with the muni curve taking its cue from Treasuries. ***We continue to see value in the 5-9 year portion of the muni curve given the yield pick up relative to shorter maturities.***

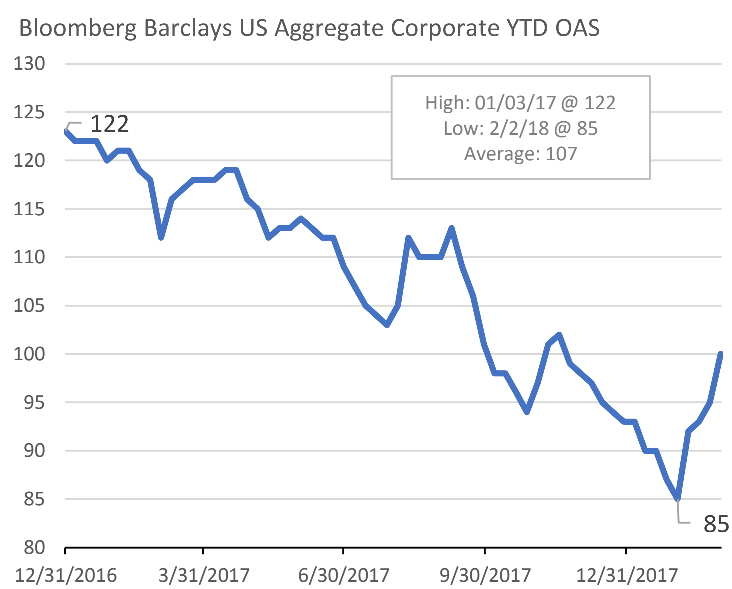


Source: MMD

- Muni issuance totaled just $16.6 billion in February, down 29% from the same period last year. While March supply is expected to pick up, new issuance will still be down considerably from past years. Despite some larger pending deals, including a $2.1 billion California GO offering, 30-day visible supply of $8.2 billion remains well below the average of the previous 12 months. ***Technicals remain strong and are supportive of muni valuations.***
- After using his first State of the Union address to propose leveraging $200 million of federal funding to spur up to $1.3 trillion in additional state, local, and private sector infrastructure investment, President Trump's plans may have stalled. Key House Republicans have indicated that they are unlikely to take it up in 2018, and the President appears to be moving on. Where this funding would have come from is uncertain, although rapidly increased municipal issuance, including a potential surge in Private Activity Bonds, would have been a likely source. ***The absence of an infrastructure plan of that magnitude alleviates the risk of an issuance surge negatively impacting primary and secondary market pricing.***

CORPORATE MARKETS

- ***Investment Grade credit spreads spiked to 2018 wide levels as the month of February came to a close.*** The selloff was in response to a broad rise in volatility across markets, the steel and aluminum tariff announcements, uncertain future Fed monetary policy, and speculation concerning the path of short term rate increases. IG spreads, while still tight relative to historical averages, are now 15 basis points wider than at the end of 2017.
- ***Corporate fundamentals remain strong, and we do not anticipate investment grade credit dislocation***, although the possibility of global trade conflict is a risk that cannot be ignored.
- After much anticipation, CVS came to market this week with a $40 billion deal aimed at financing its acquisition of Aetna. The size was initially rumored to be upwards of $50 billion, which would have topped both the record setting $49 billion Verizon deal in 2013 and the $46 billion InBev offering in 2016. The CVS deal was very well received, as there were three times as many orders ($120 billion) for bonds as were available. ***We will closely watch this offering in the secondary market over the next few trading days given its size and impact on the credit markets.***



Source: Bloomberg

PUBLIC SECTOR WATCH

CREDIT COMMENTS

- As Connecticut evaluates its options to fund transportation infrastructure, this November voters will weigh constitutionally segregating transportation revenues, often referred to as a "lockbox." Connecticut funds transportation projects through a Special Transportation Fund, which receives revenue from gas taxes, oil company taxes, motor vehicle fees and fines, and other similar sources. These funds are not protected, as the State maintains the right to limit, modify, or repeal the composition of the pledged revenues. Other states have recently taken similar action. Maryland and Wisconsin voters approved lockbox measures in 2014, with Illinois and New Jersey following in 2016. Louisiana voters approved a transportation lockbox for new fuel tax revenue last October, while Californians will vote on a transportation tax and fee lockbox in June. ***We applaud these developments, as greater protection for state transportation revenues is highly supportive of the credit standing and market perception of special purpose bonds secured by them.***

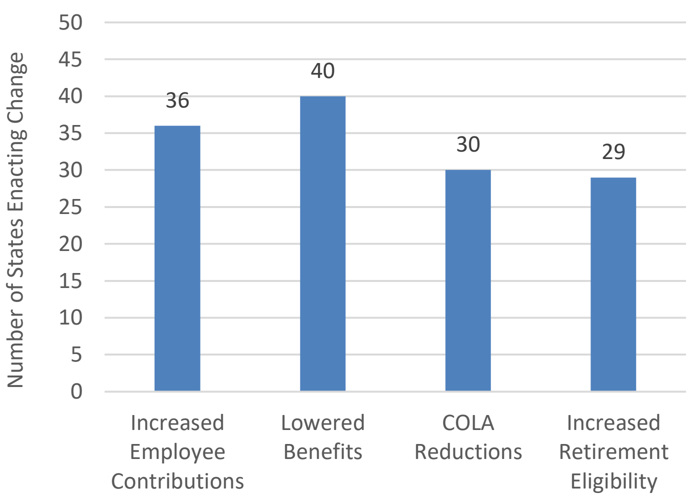
- According to the National Association of State Retirement Administrators, ***almost every state has enacted some type of pension reform in recent years.*** However, some states remain highly challenged by legacy promises to employees and recent action by officials highlights the need for ongoing management of pension liabilities. Kentucky lawmakers introduced a proposal that would reduce benefits, increase the State's contributions, and transfer a portion of the pension plans' investment risk to employees. The plan aims to respect benefits earned, but ensure that future costs of the plan are affordable and sustainable for taxpayers. Connecticut's governor is proposing changes to the State's Teacher Retirement System, looking to smooth out contributions while also incorporating a more conservative approach to investment assumptions. ***We continue to conservatively manage our exposure to state and local governments with unfunded pension liabilities and uncertain pension management plans.***

States Have Been "Locking" Transportation Revenues

State	Election Year	Result
Maryland	2014	Approved by 81.6%
Wisconsin	2014	Approved by 80.0%
Illinois	2016	Approved by 78.9%
New Jersey	2016	Approved by 54.5%
California	June 5, 2018	?
Connecticut	November 6, 2018	?

Source: Ballotpedia.org

Nearly All States Have Recently Made Changes to Their Pension Plans (2009 - present)

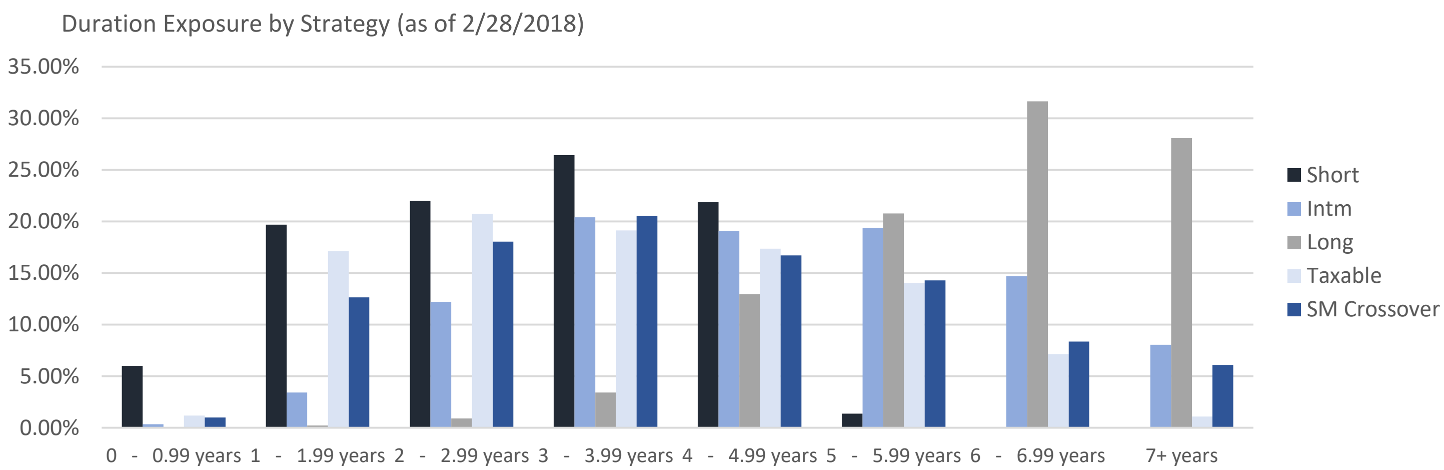


Source: National Association of State Retirement Administrators

STRATEGY OVERVIEW

PORTFOLIO POSITIONING (As of 2/28/2018)

	Short Municipal	Intermediate Municipal	Long Duration Municipal	Taxable Fixed Income	Strategic Muni Crossover
Average Modified Duration	2.85 years	4.54 years	6.06 years	3.64 years	3.97 years
Average Maturity	3.19 years	6.01 years	10.76 years	4.09 years	5.01 years
Yield to Worst	1.77%	2.12%	2.62%	2.92%	2.52%
Current Yield	4.31%	4.26%	4.26%	3.78%	4.24%
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.

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