

**HEADLINE NEWS**
**Market Expects March Fed Rate Hike**

- Prior to President Trump's address to Congress last Tuesday evening (2/28), the probability of a March Fed rate hike stood at 52%, with that probability rising to 80% the following day. By the end of the week, it had climbed to 94%. On Friday, the market will be closely watching the employment report, including both the change in nonfarm payrolls, expected at 190k, and the average hourly earnings, expected at 0.3%. This report would need to be significantly below expectations to change the Fed's assumed actions at the March meeting, where it is expected to raise the Fed Funds rate. Other important numbers on the horizon to watch for are PPI and CPI next week, which will give insight to inflation.

**SEC Proposes Disclosure Requirement for Muni Bank Loans**

- The Securities and Exchange Commission recently released a proposal that would require state and local governments that use private bank loans to disclose the financing within 10 days. Although investors typically learn about the financings when issuers make available their annual reports, under current rules there are no immediate disclosure requirements. Those annual filings often are not made until months after the issuer's fiscal year end.
- An alternative to municipal bonds, bank underwriters have sought to attract additional issuers by providing attractive interest rate terms on private loans. Issuers also can save costs on items typically associated with a public financing, such as rating agency opinions. According to federal data, bank loans to municipalities increased to \$153.5 billion in 2015 from \$66.5 billion in 2010.

- While most bank loans contain security provisions that are similar to public loan documents, stricter covenants can result in banks receiving higher priority in an issuer's capital structure or the ability to accelerate loans in the event that credit deterioration occurs. Increased disclosure requirements would provide greater transparency to investors within the municipal market.

**California Snowpack Indicates Ample Water Supply**

- On March 1<sup>st</sup>, the California Department of Water Resources announced that the water content of the state's mountain snowpack was at 185% of the historical average, significantly above both the March 2016 survey reading of 84% and the low point of 5% in 2015. While the wet season has certainly brought some challenges to regions of the state, including the recent damage at the Lake Oroville spillway, it is conversely a positive for California's water utilities.
- The snowpack, largely in the Sierra Mountains, creates a runoff in the spring and summer that typically yields 30% of California's total annual water supply. A strong reading indicates that water supply will be ample this year, which would help to build reserves and reduce the need to purchase expensive imported water.
- In 2015, a statewide mandated conservation effort to reduce urban water usage by 25% was implemented. Voluntary conservation efforts continue to-date, which means that increased water supply will most likely go to rebuilding reserves. We note that the credit quality of California water utilities has remained strong throughout drought conditions, as financial resources were robust going in and lower water sales were offset with modest rate increases.

**MARKET UPDATE**
**Muni Market Overview**

- Across the curve, Munis are higher on the week, with the 5Yr up by 8bps to 1.58% and the 7Yr up by 13bps to 2.03%. These moves were driven by fears of the potential March rate hike and uncertainty around corporate tax reform. Meanwhile, Municipal funds saw outflows of \$267 million following 4 weeks of inflows.
- After several weeks of low issuance, the calendar has stepped up with over \$10 billion expected this week. The largest deal of the week is a \$2.4 billion, State of California (Aa3/AA-/AA-) deal. As of the end of February, year to date issuance reached \$56.6 billion, similar to totals for the same time period in 2016.

**Corporate Market Overview**

- As a result of the expected Fed rate hike, the very front end of the Treasury curve rose significantly, with the three month bill ending the week higher by 20bps to .68% and the 1Yr rose 19bps to .96%. Beyond 1Yr, the curve steepened, with the 5yr up 20bps to 2.01%, the 10Yr up 17bps to 2.50% and the long bond rising 12bps to 3.07%
- In Investment Grade, new issuance came back with a vengeance, as \$58.325 billion was issued over the course of the week. It was the second highest weekly session of the year and a welcomed sight following several weeks of a slow, repetitious tone. One of

the bigger deals of the week was the \$4.5 billion brought by Johnson & Johnson (JNJ Aaa/AAA/AAA) across four maturity ranges. The \$1 billion, 10 year tranche was initially priced at +70-75bps, but final pricing came at +57. We believe this is a clear indication that the demand for high quality credit is alive and well. Credit spreads remain stable.

**FIXED INCOME INDEX RETURNS AS OF 03/03/2017**

	MTD	YTD
Barclays 3Yr	-0.16	1.14
Barclays 5Yr	-0.33	1.54
Barclays 7Yr	-0.49	1.28
Barclays MM Short 1-5Yr	-0.18	1.21
Barclays MM 1-10Yr	-0.45	1.12
ML US Gov/Corp 1-10 Yr	-0.45	0.13

Source:  
Interactive  
Data

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