

**Fed Likely to Hike Rates, Investors Eye Dots and Balance Sheet**

- There are a number of macroeconomic data releases worth watching this week, including the latest PPI and CPI inflation readings and May's retail sales report. However, most investors will be focusing on Wednesday afternoon's FOMC policy rate decision. Consensus, Appleton included, expects a 25 basis point rate hike to the federal funds rate, but far less certain is the language in the policy statement and the subsequent press conference. Chairwoman Yellen is likely to get questions regarding the Fed's balance sheet and how they intend to unwind it. That, and the Fed's economic forecast update, are more likely to influence the market than the expected rate increase.

**Puerto Rico Votes for Statehood**

- Those who showed up at Sunday's polls overwhelmingly voted for Puerto Rico to become the 51st state, but a low turnout and the need for Congressional action undermine the likelihood that the United States will expand by one within the near future.
- Voters had three non-binding choices on their ballot: statehood, independence, or status quo. According to early results, statehood received 97% of support, but opponents pointed out that only 23% of registered voters participated. According to multiple reports, a successful boycott effort by the opposition was the primary driver of low turn-out.
- Ultimately it would take an act of Congress for Puerto Rico to become a state. We see a low probability that Congress acts on the result in the near-term, although it may be discussed as a strategy to help stabilize Puerto Rico's economy.
- Sunday was the fifth time since 1967 that the island's residents have gone to the polls to vote on the issue. Statehood has won the majority before, including in 2012, but questions of credibility ultimately deterred Congress from acting on the result. The same may hold true following Sunday's vote.

**State and Local Pension Liabilities Decline in 1st Quarter**

- According to Federal Reserve data released last week, state and local public pension net liabilities fell \$50 billion in the first quarter of 2017 to \$1.871 trillion. The funded ratio improved marginally to 67.9% from 66.4%, but remains below the 94.7% ratio recorded in the summer of 2007 and the plus-100% recorded in the early part of this century.

**FIXED INCOME INDEX RETURNS AS OF 06/09/2017**

	MTD	YTD
Barclays 3Yr	0.00	2.12
Barclays 5Yr	0.03	3.65
Barclays 7Yr	0.12	4.51
Barclays MM Short 1-5Yr	0.02	2.38
Barclays MM 1-10Yr	0.12	3.91
ML US Gov/Corp 1-10 Yr	-0.02	1.59

Source: Interactive Data

**Corporate Market Overview**

- Last week's Investment Grade corporate issuance was disappointing. For only the second time this year, weekly new debt issuance failed to reach the \$20 billion mark, even though many had expected more than \$25 billion. There has been a total of \$833.75 billion issued so far this year. That decreases to \$666.62 billion when SAS is removed, which down 7% versus this time last year. Spreads continue to remain close to YTD tight and secondary trading remains strong.

**Muni Market Overview**

- The muni curve was relatively flat over the week with a small increase inside of 4Yrs.
- Issuance for the week is expected at about \$8 billion, which is right on the YTD weekly average. 30-day visible supply is \$12.6 billion, suggesting that issuance will not be increasing dramatically in the near term. Of course, issuers are likely waiting until the FOMC release on Wednesday. As of 6/9/17, total YTD issuance was \$165 billion.
- Muni fund flows were relatively high at \$1.48 billion marking the 9th consecutive week of inflows and totaling \$5.57 billion of inflows for the year.

