

**HEADLINE NEWS**
**Economic Data Releases Maintain Hold on the Fed**

- The Fed stole the headlines this week with its persistently dovish tone, as well as, its continued uncertainty of how well the economy is actually doing. At the June 15<sup>th</sup> meeting, policy makers adjusted the “Dots,” leaving the Fed Funds rate at an estimated .63% by year’s end, which would require a Fed Funds Rate adjustment of about 50 basis points in the remaining six months of 2015. Longer term, the Fed forecasts a 1.75% rate at year-end 2016 and a 2.75% rate at year-end 2017. This supports the continued outlook for gradual rate hikes.
- Going forward, we know that the major economic data releases will be in the forefront of the discussion at the remaining Fed meetings scheduled for July, September, October, and December.

**New Jersey Pension Ruling Provides Breathing Room**

- A ruling by the New Jersey State Supreme Court will allow the State to avoid making an additional \$1.5 billion contribution to its pension plans for the current fiscal year ending June 30<sup>th</sup>. The ruling bodes well for New Jersey in the short-run, removing an overhang that would have caused liquidity and budgetary pressures; however, it also reinforces New Jersey’s ability to continue the practice of underfunding its pension plans, thereby leading to growing unfunded liabilities.
- We note that the New Jersey ruling stands in stark contrast to a recent ruling in the State of Illinois and provides a good example of the different protections afforded to pensioners depending on their state of residence.

**Bond ETFs Can Carry Hidden Costs**

- The popularity of bond ETFs has skyrocketed in the last several years, with four times as many fixed income ETFs available today as there were in 2008. However, many participants might misunderstand the true costs, especially when compared to their equity ETF brethren, of what are traditionally known as “low-cost” investment vehicles.
- The average fixed-income ETF carries a bid-ask spread of 0.39%, according to research firm XTF. For stock ETFs, the average is 0.31%; however, this is deceptively high because equity investors have access to an array of large, frequently traded stock ETFs that have very thin spreads.

SUMMARY OF ECONOMIC PROJECTIONS RELEASED WITH FED MINUTES 6/17/15								
Variable	Central Tendency				Range			
	2015	2016	2017	Longer run	2015	2016	2017	Longer run
Change in real GDP	1.8 - 2.0	2.4 - 2.7	2.1 - 2.5	2.0 - 2.3	1.7 - 2.3	2.3 - 3.0	2.0 - 2.5	1.8 - 2.5
March projection	2.3 - 2.7	2.3 - 2.7	2.0 - 2.4	2.0 - 2.3	2.1 - 3.1	2.2 - 3.0	1.8 - 2.5	1.8 - 2.5
Unemployment rate	5.2 - 5.3	4.9 - 5.1	4.9 - 5.1	5.0 - 5.2	5.0 - 5.3	4.6 - 5.2	4.8 - 5.5	5.0 - 5.8
March projection	5.0 - 5.2	4.9 - 5.1	4.8 - 5.1	5.0 - 5.2	4.8 - 5.3	4.5 - 5.2	4.8 - 5.5	4.9 - 5.8
PCE inflation	0.6 - 0.8	1.6 - 1.9	1.9 - 2.0	2.00	0.6 - 1.0	1.5 - 2.4	1.7 - 2.2	2.00
March projection	0.6 - 0.8	1.7 - 1.9	1.9 - 2.0	2.00	0.6 - 1.5	1.6 - 2.4	1.7 - 2.2	2.00
Core PCE inflation	1.3 - 1.4	1.6 - 1.9	1.9 - 2.0		1.2 - 1.6	1.5 - 2.4	1.7 - 2.2	
March projection	1.3 - 1.4	1.5 - 1.9	1.8 - 2.0		1.2 - 1.6	1.5 - 2.4	1.7 - 2.2	

Source: FOMC Minutes 6/17/15

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

- While YTD Municipal bond fund flows remain positive at \$9.9 billion, last week’s outflow of \$421 million represents the 6<sup>th</sup> consecutive week of outflows. Comparatively, Intermediate bond funds have had only one week of outflows over the past 11 weeks.
- This week’s calendar is about \$9 billion, of which 61% are refundings. The Commonwealth of Massachusetts (Aa1/AA+/AA+) brings the largest deal of the week with \$938 million in GO bonds, which subsequently inflates the percentage of negotiated deals versus competitive deals to 85% for the week.

**Corporate Market Overview**

- It was another below expectations week in Investment Grade Credit issuance, with 14 issuers pricing deals totaling just over \$21 billion. Understandably, given the Fed meeting, there was no issuance on Wednesday (6/15); however, Thursday (6/16) saw \$12.25 billion issued, which largely came from the energy sector (Occidental Petroleum, Energy Transfer Partners, & Baxalta).
- In the IG space, the slowdown in secondary flows, a reduction in new issuance, and spread widening (with spreads at/near YTD highs) have somewhat subdued investor participation, as an overall weaker tone has temporarily taken hold.

**YIELDS:** Municipal yields ended the week slightly lower as the 5Yr dropped to a 1.45% and the 7Yr ended the week lower by 6bps to 1.87%. Munis did lag as Treasuries rallied following the FOMC meeting and outlook on Wednesday. The UST curve did flatten by week’s end, with the 10Yr down 2 bps to 2.39% and the 30Yr dropping 1 bpt to 3.10%.

**FIXED INCOME INDEX RETURNS AS OF 6/5/2015**

	MTD	QTD	YTD
Barclays 3Yr	0.06	-0.19	0.22
Barclays 5Yr	0.01	-0.43	0.32
Barclays 7Yr	-0.07	-0.85	0.23
Barclays MM Short 1-5Yr	0.04	-0.17	0.30
Barclays MM 1-10Yr	-0.10	-0.70	0.23
ML US Gov/Corp 1-10 Yr	-0.36	-0.42	0.98

Source: Interactive Data

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

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