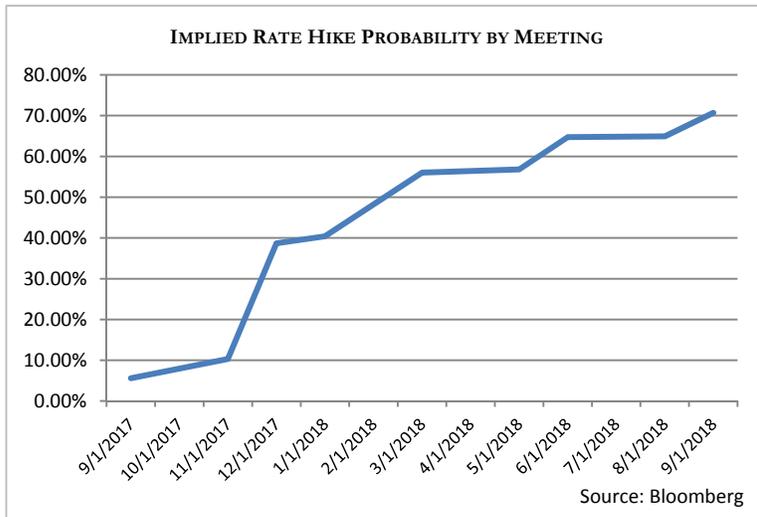


Fed Keeps Rates Steady, Focus Remains on Inflation

- The Federal Open Markets Committee did not raise the Federal Funds target rate (currently @ 1.16%) from its 1.00% - 1.25% range during last week's meeting. It came as no surprise as there was a 99.9% implied probability that the Fed would not touch the rate at this meeting and pushed the probability (58%) of next rate hike further out. The decision not to increase was unanimous as inflation data currently "warrants gradual rate hikes" given that it is "somewhat below" 2% in the near term, according to the Fed's press release. The U.S. treasury curve steepened with the benchmark 10Yr rising 5bps to 2.29% and the 30Yr bond rising 9bps to 2.90%.


Pennsylvania Moves Closer to Fixing Budget Gap

- Republicans in the Pennsylvania State Senate approved a measure last week that would close the \$2.0 billion budget gap left after the legislature recently enacted Pennsylvania's budget without approving a matching revenue plan. With a spending plan of \$32.4 billion, the budget gap equals an elevated 6.8% of expenditures. Pennsylvania has a constitutional provision that requires a balanced budget.
- The Senate GOP proposal includes a severance tax on Marcellus Shale drilling, as well as issuing \$1.3 billion in debt to be backed by the State's allocation of the 1998 master settlement payments from tobacco companies. Other states have sold debt backed by these tobacco payments, but borrowing to fill a budget hole calls into question Pennsylvania's "balanced budget" requirement and highlights a reliance on one-time fixes.
- Governor Wolf, a Democrat, supports the plan, but House Republicans recently rejected a proposal with similar components, making enactment of the current proposal uncertain.
- Pennsylvania lawmakers approved a revenue package in fiscal 2017 three days following the enactment of the spending plan. In fiscal year 2016, it took nearly nine months to approve a budget, implying that lawmakers are quite familiar with piecemeal budget negotiations.

Corporate Market Overview

- Last week's Investment Grade Corporate market was quiet until Thursday, when AT&T issued \$22.5 billion worth of debt to fund the Time Warner acquisition. The \$22.5 billion was spread across 7 tranches, including \$4.5 billion in 20Yrs, \$5 billion in 32.5Yrs and \$2.5 billion in 41Yrs. Those longer maturities required a 10-15 basis point concession to comparables when priced. The deal, which was the third largest to hit the Investment Grade Credit market, had orders for \$65+ billion, which meant it was 2.8X oversubscribed. Spreads in general remain steady to unchanged.

Muni Market Overview

- Inside 6Yrs, the muni curve was unchanged. From 7Yrs out, the curve was up by 3-5 bps, and the 7Yr ended the week at 1.50%. The curve is steeper from 2Yrs to 10Yrs at 101 bps.
- While issuance is higher this week, it remains on trend for the last week in July at about \$7.4 billion. As of last week, year to date issuance is down 12.8% year-over-year. Given the elevated levels of cash coming into the market from income payments and maturities, the technicals are strong for munis. The largest deal this week is \$1.1 billion Bay Area Toll Authority (AA3/AA/AA) bonds.
- Flows were positive again this week for Muni mutual funds at \$323 million to bring the year to date total to \$6.3 billion.

FIXED INCOME INDEX RETURNS AS OF 7/28/2017		
	MTD	YTD
Barclays 3Yr	0.42	2.24
Barclays 5Yr	0.71	3.91
Barclays 7Yr	0.83	4.78
Barclays MM Short 1-5Yr	0.48	2.50
Barclays MM 1-10Yr	0.70	4.06
ML US Gov/Corp 1-10 Yr	0.38	1.79

Source: Interactive Data