

HEADLINE NEWS
Yellen and Fischer Reiterate Fed is Data Dependent

- Last week all eyes were on Janet Yellen's speech at Jackson Hole. As usual, Fed Chair Yellen was opaque with regard to the future direction of interest rates, as evidenced by Goldman Sachs increasing its odds of a September increase, while, conversely, Pimco stated there was "nothing to note." As a result, the new number to watch is the unemployment rate and non-farm payrolls which are released this Friday. Currently, the market is looking for an increase in private payrolls of 180k and an unemployment rate of 4.8%. A stronger than expected number could possibly put a September rate increase in play, while a weaker number would move any raise back to at least December.
- Given the lack of scheduled catalysts in the near term, global monetary policy is likely to steer markets over the coming month. Three of the world's largest central banks are scheduled to hold policy meetings in September: ECB on 9/8, the Bank of Japan on 9/21, and the Fed on 9/21. The team at Appleton will be monitoring these events closely.

Rhode Island Reaches Deal With Banks on 38 Studios Debt

- The State of Rhode Island reached a settlement with Wells Fargo and Barclays this past week, agreeing to receive a combined \$26 million in return for dropping litigation against the banks related to

the now infamous 38 Studios financing. The company, 38 Studios, was founded by former Boston Red Sox pitcher Curt Schilling and aimed to develop video games. The company received support from Rhode Island, including a backstop on \$75 million in debt, as an incentive to relocate from Massachusetts.

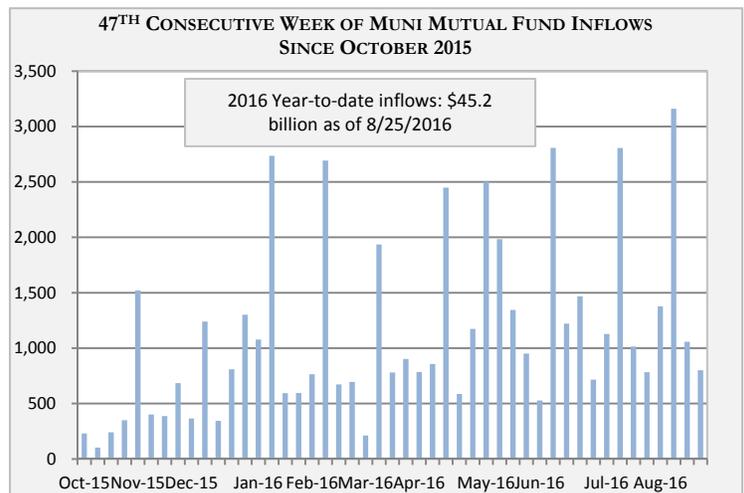
- 38 Studios quickly failed and the State was left on the hook to pay interest and principal on the bonds. Lawsuits ensued and Rhode Island has successfully recouped approximately \$42 million through settlements with certain counterparties.
- Rhode Island isn't the first, and certainly won't be the last, state or local government that targets non-traditional financings as a way to spur economic development. However, these types of deals expose governments to enterprise risk, or the risk that the economic benefits will not meet projections, and, in a worse-case scenario, the sponsoring government is forced to take on the financial burden. The State of Rhode Island has enough financial resources and budgetary flexibility to withstand the financial ramifications, but enterprise risk can prove more detrimental for smaller governments.

MARKET UPDATE
Muni Market Overview

- For the last days of August, an end-of-summer slump appears to be upon us. Over the week, the Muni curve moved very little until Friday when it increased slightly after Treasuries sold off a bit with Yellen's comments.
- This week's new issuance seems to be more in keeping with traditional August issuance at about \$7 billion. The issuance for the month is still expected to beat the most recent high in 2009 (\$36.4 billion) at over \$40 billion.
- By far, the largest deal of the week is \$2.7 billion in State of California GOs (Aa3/AA-/AA-). We continued to see inflows into Muni funds with \$801 million this week to bring the YTD total over \$45 billion. The streak of inflows is now at 47 consecutive weeks.

Corporate Market Overview

- During the slow days of August, investment grade corporate spreads continued to trade in a tight range with light volumes. IG Issuance slowed to roughly \$12 billion as the market awaited comments from Jackson Hole, while the treasury curve flattened with 2Yr to 30Yr spread ending the week at 145 basis points.


FIXED INCOME INDEX RETURNS AS OF 8/26/2016

	MTD	YTD
Barclays 3Yr	-0.01	1.74
Barclays 5Yr	0.08	2.79
Barclays 7Yr	0.13	3.61
Barclays MM Short 1-5Yr	0.04	1.83
Barclays MM 1-10Yr	0.07	3.18
ML US Gov/Corp 1-10 Yr	-0.55	3.27

Source:
Interactive
Data