

HEADLINE NEWS
All Eyes on the BoJ and FOMC This Wednesday

- Investors will be focused on two key monetary policy decisions later this week. The Bank of Japan (BoJ) and the U.S. Federal Open Market Committee (FOMC) will each issue policy statements and hold press conferences this Wednesday. Market participants have been digesting all of the rhetoric coming from a litany of Fed speakers over the past few weeks. Traders believe that the FOMC will hold rates steady at this week's meeting, with the probability of a September rate hike currently at 12% according to the CME Group. The probability of a move in December has held steady at 55% despite the recent swings we have witnessed in the financial markets. At Appleton, we align with the consensus view that the FOMC will not hike rates on Wednesday. We will be monitoring Chairwoman Yellen's press conference following the policy announcement for any clarity around the forward path of rates. Despite the amount of attention garnered by the FOMC, the team at Appleton believes that the BoJ decision has more potential to move markets in the short term. The BoJ was one of the first central banks to adopt negative interest rates, and investors are unsure if they will continue to focus on rates or focus on asset purchases in an attempt to influence the shape of their yield curve. With some

foreign yields hovering near zero, it could give the FOMC more latitude to raise rates here at home.

Chicago's Water Utility to Aid Pension Plan

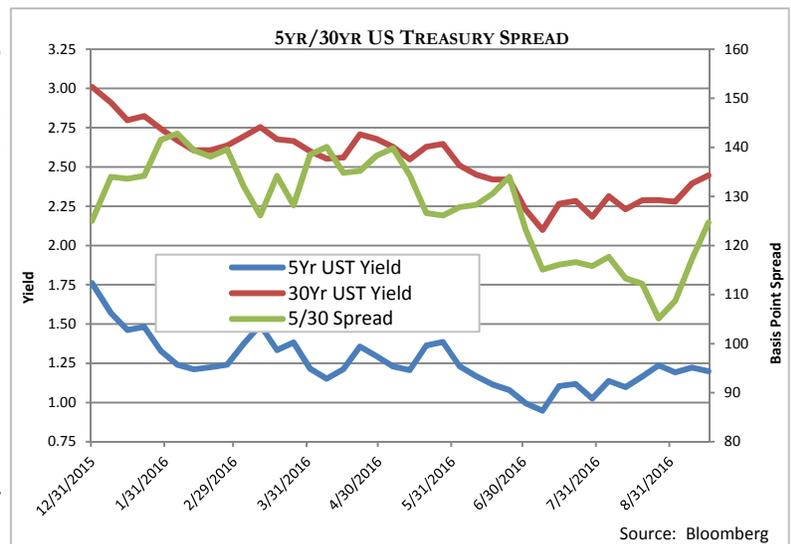
- The Chicago City Council approved a five-year increase in water and sewer rates, with the additional revenues dedicated to boosting City contributions into the Municipal Employees' Pension Fund. The dedicated revenues will now put Chicago's largest and worst-funded pension plan on a path to solvency, but it will still require a great deal of commitment by the City and future administrations.
- The utility taxes will increase pension contributions by \$2 billion through 2022, after which Chicago will be on the hook for finding new revenue to maintain the actuarially recommended contributions.
- The City Council approval follows a record property tax hike in October 2015 for the purpose of bolstering funding of the police and fire pension plans. Further, the introduction of a telephone charge earlier this year to help fund the Laborer's plan. Chicago still has a steep hill to climb in order to restore fiscal stability; but, the City has moved expediently in the last ten months to tackle its most glaring challenges concerning poorly funded pension plans.

MARKET UPDATE
Muni Market Overview

- Municipal yields are up across the curve with the 5Yr up 6bps to 1.04% and the 7Yr up 5bps to 1.27%. The move is partially in sympathy with the US Treasury curve and also because of the increased new issue calendar. Looking to this week, the new issue calendar is still elevated at \$10.5 billion, which is surprising given that we hear from the FOMC and the BoJ on Wednesday. The YTD non-holiday average weekly issuance is \$8.8 billion. Mutual Fund inflows continue to be strong, with another \$934 million this week, bringing YTD inflows to \$49.5 billion.

Corporate Market Overview

- Over the last two weeks, the US Treasury yield curve has been slowly reversing its flattening trend in favor of a steepening. The difference between 5 & 30Yr UST's at the end of August was 103 bps. On Thursday of last week, that distance grew to 128bps, a level not seen since June. The move seems to have been driven by continued volatility surrounding what the Fed will do on Wednesday. Although a hike is unlikely, volatility will continue until we get a clearer picture from the FOMC.
- In the midst of the rate volatility, Investment Grade Credit issuance and spreads each remain strong. Last week, just over \$48 billion in new debt satisfied the continued demand for credit. One of the largest deals was the \$6.25 billion issued by CISCO (CSCO A1/AA-) across 6 different maturities. The initial price talk in 7Yrs of +85 - +90 was cheaper than expected, which created a frenzy of orders. The deal quickly repriced lower by 15 - 20bps and richened further by another 5bps in the greys market. This week is expected to be a little quieter, but will ramp up again after the Fed decision.


FIXED INCOME INDEX RETURNS AS OF 9/16/2016

	MTD	YTD
Barclays 3Yr	-0.35	1.26
Barclays 5Yr	-0.50	2.19
Barclays 7Yr	-0.53	2.89
Barclays MM Short 1-5Yr	-0.42	1.28
Barclays MM 1-10Yr	-0.58	2.43
ML US Gov/Corp 1-10 Yr	-0.17	3.32

Source: Interactive Data

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