

HEADLINE NEWS
Fed Leaves Rates Unchanged, Lower Projections

- This biggest news of last week was the much anticipated release of the FOMC policy statement and rate decision (unchanged @ .25% - .50%) on Wednesday. Thematically, things seem to be the same, but the stronger language used by the Fed indicates a December rate hike is quite possible. According to Bloomberg, nearly 58% of market participants believe that a rate hike will occur in December.
- The Fed reiterated that the getting back to "normal" may take some time even though the risks to the US economy "have diminished" and appear to be "roughly balanced." That being said, the Fed Funds Rate projections were lowered, again. In June, the 2016 rate projection was .83%, and, after this meeting, the rate target was .65%, clearly showing a rate hike in the range of .50% - .75%. The 2017 rate projection was lowered by 30 bps to 1.31%, which may be a sign that 2 rate hikes may be on the table for 2017. Ultra short UST rates (1 - 6Mths) were anywhere from 9 - 11 bps lower on the week as was the 30Yr, which closed the day on Friday at 2.35%.

Summary of Economic Projections & DOTs Released With the FOMC Minutes

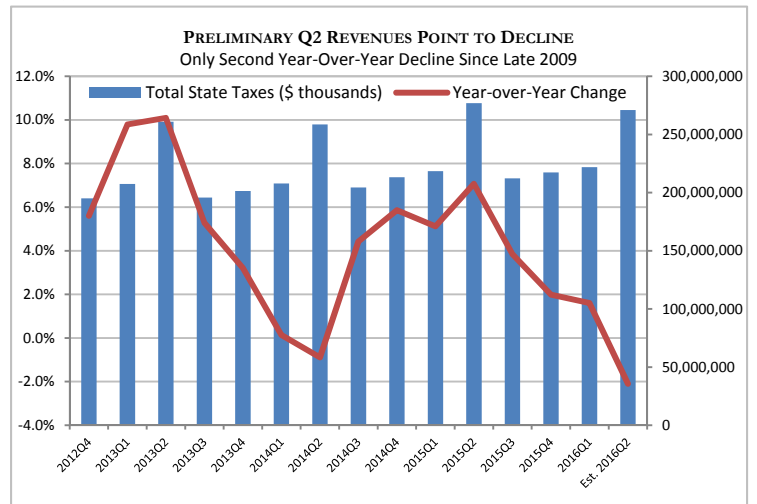
Variable	September 2016 Median				June 2016 Median			
	2016	2017	2018	Longer run	2016	2017	2018	Longer run
Change in real GDP	2.20	2.10	2.00	2.00	2.00	2.00	2.00	2.00
Unemployment rate	4.70	4.60	4.50	4.80	4.70	4.60	4.60	4.80
PCE inflation	1.20	1.90	2.00	2.00	1.40	1.90	2.00	2.00
Projection	1.60	1.90	2.00	2.00	1.20	1.90	2.00	2.00
Projection	1.60	1.90	2.00		1.60	1.80	2.00	--

Meeting	Fed Funds Rate Projection (Avg.)							
	2016	2017		2018		Longer run		Action
		Action	Action	Action	Action	Action	Action	
September '16	0.65%	▼0.19%	1.31%	▼0.30%	2.11%	▼0.35%	2.91%	▼0.24%
June '16	0.83%	▼0.19%	1.61%	▼0.43%	2.46%	▼0.49%	3.14%	▼0.17%
March '16	1.02%	▼0.27%	2.04%	▼0.37%	2.95%	▼0.21%	3.31%	▼0.03%
December '15	1.29%	▼0.19%	2.41%	▼0.23%	3.16%	▼0.18%	3.34%	▼0.12%
September '16	1.48%	▼0.26%	2.64%	▼0.36%	3.34%	--	3.46%	▼0.18%

Source: FOMC

State Tax Revenues Show Weakness in First Half

- According to the Rockefeller Institute, state tax revenues grew by 1.6% in the first quarter of 2016 compared to earlier estimates of 1.9%, marking a slowdown compared to a 4.4% average increase for the four previous quarters.
- Preliminary data for the second quarter points to a decline of 2.1% in state tax revenues compared to last year, signaling the first decline since the second quarter of 2014 and only the second down quarter since late 2009. The timing is difficult as most states adopt their budgets during the second quarter and revenue underperformance late in a fiscal year can require adjustments to future spending.
- The median forecasts for income tax and sales tax growth in fiscal 2017 are 4.0% and 3.8%, respectively. However, many forecasts were prepared prior to the weak April income tax results, and thus may need to be scaled back.



Source: Rockefeller Institute

MARKET UPDATE
Muni Market Overview

- Munis for the week were unchanged in the 5Yr spot, lower by 5bps to 1.52% in 10Yrs, and 2Yrs-10Yrs flattened by 10bps to 72 bps.
- The new issue calendar is expected at about \$9 billion, just above the non-holiday weekly average for the year, following several weeks of elevated issuance. This week's new issue supply is comprised of more heavily of high grade offerings than in recent weeks, which was heavier in healthcare names and other typically lower rated credits.
- The streak of inflows into Municipal Bond Funds continues with \$518 million (week ending 9/21/16), bringing the Year to Date total to \$49.7 billion.

Corporate Market Overview

- A strong bid for Investment Grade credit continues to eat up bulging supply. Although there was zero issuance on Wednesday, due to the Fed soaking up the spotlight, issuers were able to bring \$38.55 billion with no trouble last week.

- The largest deal of the week was Shire Pharmaceuticals' (SHPLN Baa3/BBB-/BBB-) 4 part, \$12.1 deal to fund its Baxalta takeover. Ten year pricing on the borderline investment grade credit was initially priced at +175 in 10 years, but soared in to +150 by the time the deal launched. IG spreads remain stable.

FIXED INCOME INDEX RETURNS AS OF 9/23/2016

	MTD	YTD
Barclays 3Yr	-0.41	1.20
Barclays 5Yr	-0.47	2.22
Barclays 7Yr	-0.36	3.07
Barclays MM Short 1-5Yr	-0.46	1.25
Barclays MM 1-10Yr	-0.46	2.56
ML US Gov/Corp 1-10 Yr	0.07	3.57

 Source:
Interactive
Data

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

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