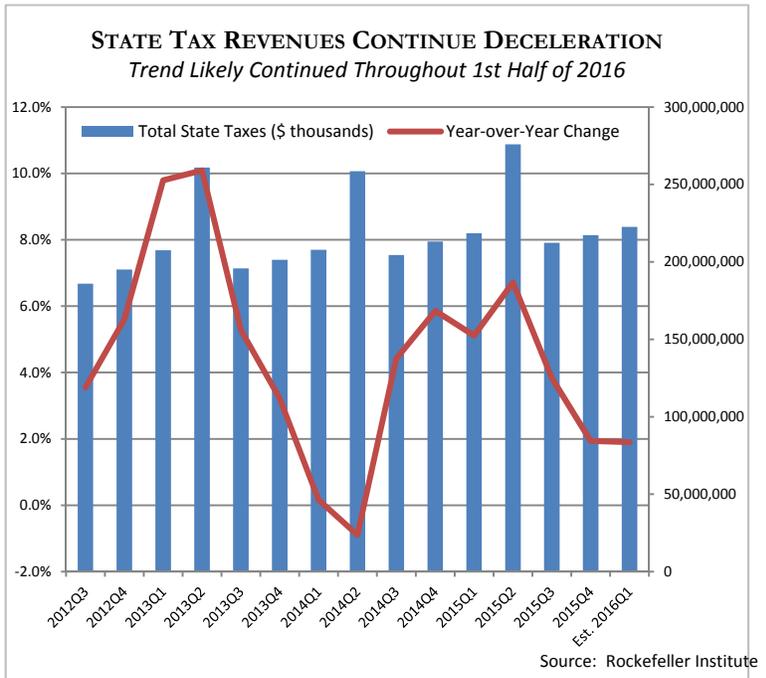


HEADLINE NEWS
State Tax Revenues Continue Deceleration

- According to the Rockefeller Institute, growth in state tax revenues stumbled in the second half of 2015 and likely continued to decelerate in the first half of 2016. Growth in the fourth quarter was 1.9%, down from 6.7% and 3.8% in the second and third quarters, respectively.
- Energy-reliant states continue to experience economic stress, but the weakness was broader in late 2015, indicating that modest tax collections are being driven by more macro factors.
- Preliminary data for the first quarter of 2016 points to another sub-2.0% increase, and monthly reports from a number of states indicate disappointing results in April and May. States typically have a strong ability to make adjustments to expenditures to offset revenue underperformance, but reliance on one-time fixes can signal the potential for additional budget problems down the road.

Ratings Agencies Find Credit Quality Declining

- In an interesting divergence, both the Fitch and Moody's rating services proprietary economic indicators ticked down in the month of June despite what appeared to be stabilizing domestic economic conditions.
- Fitch Ratings' Fitch Fundamental Index (FFI) dropped in the second quarter, primarily due to weakening corporate credit quality. Moody's also released a recent report that suggested credit quality failed to show improvement. Moody's noted that although the pool of lowest rated issues shrank in the second quarter, it was actually because more of those companies are defaulting rather than improving credit worthiness.



- At Appleton, we continue to balance the outlook for corporate credit with the other macroeconomic data we've seen trending modestly positive.

MARKET UPDATE
Muni Market Overview

- Positive economic indicators at the end of last week caused a higher and steeper Muni yield curve following Treasuries, but not as significantly. The 7Yr muni rose by 10 bps to 1.16% and the 10Yr came up by 14bps to 1.45%.
- Issuance for the week is expected at almost \$9 billion, which is higher than the trailing 3yr average for the 3rd week in July of \$7.5 billion. The largest of the deals is \$665 million Michigan State Building Authority (Aa2/A+/AA-) followed by \$520 million Metropolitan Transportation Authority (A1/AA-/A). The Commonwealth of Pennsylvania was scheduled to bring \$1.2 billion this week, but the deal has been postponed until August because they need to update their offering statement to accurately reflect the changes in their newly passed 2017 budget, 2 weeks late of their July 1 deadline.
- On the demand side, deals continue to be well received. For the period ending 7/13/16, municipal bond funds showed inflows of \$2.8 billion, which is a close second to the largest week of inflows this year from the week of 6/8/16. This week marks the 41st consecutive week of inflows and brings the year to date total to \$36.9 billion.

Corporate Market Overview

- Demand for corporate securities continues to be strong with yesterday's new issue by Teva Pharmaceutical Industries providing an example of investor's appetite. Teva issued \$15 billion in new bonds to help fund its purchase of Allergan's generics business. This was the third largest new issue of the year and made up of six different maturities. Highlighting the extreme investor demand, there were \$70 billion orders for the \$15 billion deal.

FIXED INCOME INDEX RETURNS AS OF 7/15/16

	MTD	YTD
Barclays 3Yr	0.08	1.54
Barclays 5Yr	0.13	2.45
Barclays 7Yr	-0.08	3.14
Barclays MM Short 1-5Yr	0.10	1.58
Barclays MM 1-10Yr	-0.07	2.81
ML US Gov/Corp 1-10 Yr	-0.33	3.34

Source: Interactive Data

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