



## GAIN INSIGHT ON HOW TO NAVIGATE THE COMPLEX MUNICIPAL BOND MARKET

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Municipal Market Advisors is a leading independent strategy, research and consulting firm in the municipal bond industry. MMA's subscription services provide *clarity* and *insight* into the complex world of municipal bond investing. Our independence facilitates objective analysis and distinctive views of the issues confronting investors so informed investment decisions can be made.

## WHAT WE OFFER

- MMA's subscription services provide timely independent unbiased market coverage delivered intraday, daily and weekly via internet, email, Bloomberg and PDA.
- Cost effective solution to monitoring and understanding "The Market".
- Interaction with regulators, Congressional leaders and Central Banks provides unique insight.

## CONTACT US

For **Full Muni Outlook** and additional information on how our advisory or subscription services can add value to your portfolio, please contact Steve McLaughlin at 973-701-1111 or log on to [www.mma-research.com](http://www.mma-research.com) and sign on for a free trial.

## MARKET SUMMARY

## DECEMBER POSTED GAINS FROM DEEP DISTRESS

The municipal market struggled early in December as the corrective trend from the aggressive November yields continued. The absence of an institutional demand component remained an important characteristic which restricted secondary liquidity and issuers' access to the debt markets. In addition, municipal high-yield and closed-end funds were forced to liquidate some of their portfolios placing extreme pressure on yields. Municipal yields steadily rose and neared the levels attained in mid-October which served as a catalyst for individual investors.

Following the FOMC's Fund's rate reduction from 1% to a range of 0.0% to 0.25%, the bid for the attractive tax-exempt yields was ignited. However, the vibrant gains in the later half of the month were somewhat contrived and bred a degree of caution. The limited trading activity in the last 2 weeks of the month spawned opportunistic trading that contributed to aggressive evaluations based on limited price discovery - the municipal industry's Achilles heal. As a result, offering levels and evaluations returned to aggressive spreads attained twice in 2008, late May and early September. In both instances, municipal yields rose 40 bps within the next 20 trading days. The advance in the latter half of the month was exacerbated by reduction of the MMD benchmark coupon. For the 5th time in 4Q08, the data was tampered with and produced additional market confusion. Those close to the data were able to seize opportunity.

## CREDIT FOCUS CONSIDERABLE

The continued discord prompted by headline and ratings risk in the municipal sector resulted in a stronger bid for well established and higher rated issues. Issuers with strong underlying credits had access to the debt markets. The \$1B Harvard University loan demonstrated the opportunity for high-grade credits. **Figure 1**, illustrates the fluctuating spread of Harvard

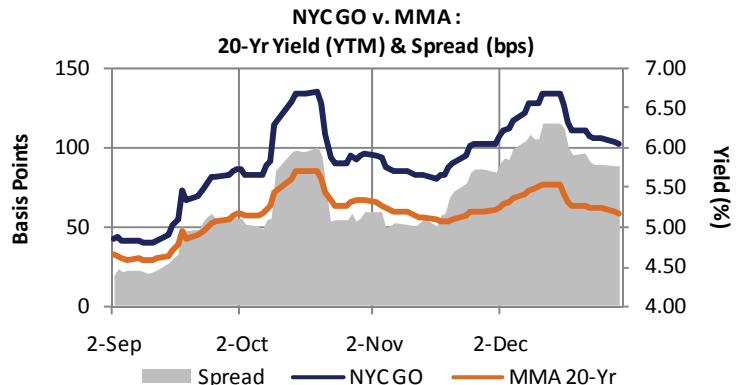


Figure 2: NYC GO's widening yield spread to MMA through mid-December illustrated the penal conditions for non-AAA credits. However, limited transactions in late December inhibited granular pricing that allowed many credits to draft the AAA rally.

(Aaa/AAA) to the MMA benchmark. In October the issue was evaluated with a yield 38 bps greater than the MMA-mid, while at the end of the year the spread was nearly 40 bps lower in yield. In contrast, NYC GO displayed a consistently widening spread as the negative economic headlines concerning the state and city weighed on the credit's yield. However, the municipal market's illiquidity provided a benefit to the issuer. Limited transactions resulted in many GO issues participating in the late month rally. The rewards were twofold. First, investors experienced price appreciation that mitigated the losses experienced throughout much of 2008. Second, the momentum and sweeping price appreciation created an environment that historically would be expected to allow issuers in early January to receive relatively attractive and aggressive pricing.

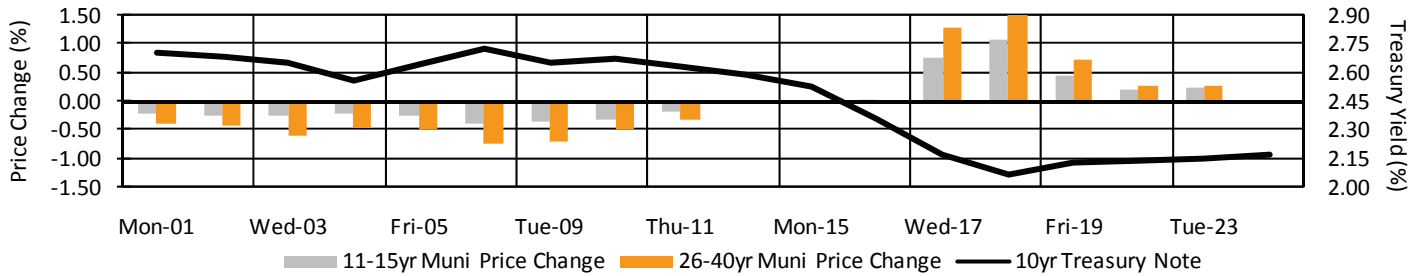
## MUNICIPAL ISSUANCE \$21.8B &amp; 4-MO ISSUANCE \$90B.

For the 4th consecutive month, municipal issuance was below totals of recent history. During the September-December period issuance totaled \$90B, the lowest 4-month total since the period ending September 2001. The 12-month total ending September 2001 was \$250B, and the 12-month total ending September 2002 was \$350B. Should bank allocation of capital remain limited for municipal fi-

**MUNI OUTLOOK FOR DECEMBER 2008**

**December, 2008 - Month In Review**

**MMA: Consensus Price Movement vs. 10-Year Treasury Yields**



nance, then 2009 issuance could abruptly return to annual figures which defined the market before the “TOB era of demand,” 2003-2007.

**JANUARY 2nd STIMULUS & NEW ADMINISTRATION**

The new administration’s review of financial regulation and prospects for allocation of capital to states from the 2nd stimulus package (\$350B has been advocated) could potentially powerfully change the municipal industry. The expediency with which the urgent needs of states are Federally addressed raises the prospects that 1Q09 could be the most important and transformational in the industry’s history by either bolstering state budgets (i.e. credits) or reducing traditional municipal finance needs.

**MA Hlth & Educ (Harvard Univ.) v. MMA:  
30-Yr Yield (YTM) & Spread (bps)**

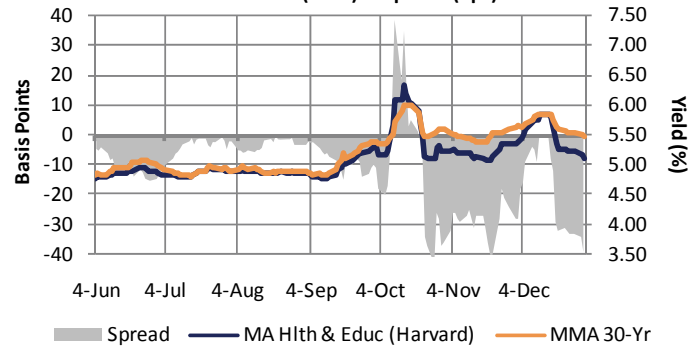


Figure 1: The aggressive evaluation of AAA credits such as Harvard will provide an opportunistic pricing for issuers in early January.

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