GAIN INSIGHT ON HOW TO NAVIGATE THE COMPLEX MUNICIPAL BOND MARKET

ABOUT US

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 and sign on for a free trial.

MARKET SUMMARY

MUNICIPALS FACING CHALLENGES FROM OTHER ASSETS

The municipal bond market experienced a stiff challenge to sustain the exuberant momentum generated from the Build America Bond (BAB) induced rally in April. Municipal yields were largely unchanged so that positive total returns were generated from the coupon income. Issuance was $27B for May and the 12-month total declined to $456B. However, individual investors remained interested in the sector as the net inflow

Maturity	TRR	Maturity	TRR
2yr	1.6%	20yr	10.9%
5yr	4.7%	25yr	11.6%
10yr	8.7%	30yr	12.5%
15yr	10.6%		

into municipal bonds funds was more than $2B and ETF's experienced a 6.6% increase in assets. The demand was largely cultivated by the marketed fear that tax-exempt would become scarce as taxable BAB issuance grew to a larger percent of the market. YTD BAB issuance reached $10.2B. In addition, since mid-December municipal returns have been exceptional. Over the past 6 months the 10-year MMA TRR Index has posted a gain of 8.7% and the 30-year has shown a 12.5% increase (**table above**).

The stability of the tax-exempt returns as well as the tax-shelter from future higher personal income taxes became challenged as 1) fundamental US economic data improved 2) Federal Reserve officials spoke positively regarding the US economy's ability to recover and 3) US equities posted strong gains. In May, the S&P 500 gained 5.31%, while the Dow improved 4.07% and the Nasdaq edged higher 3.32%. Since mid-March the S&P 500

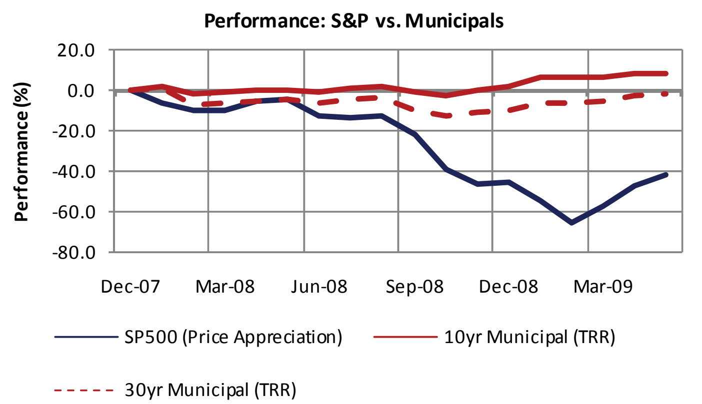

Figure 1: US economic data released in May and comments from Federal Reserve officials suggested that U.S. equities could sustain the robust recovery that began in March. The strong advance contrasted municipals' stability.

has gained more than 20% (**Figure 1**). The exceptionally low absolute yields among the tax-exempt high-grade sector had begun to dissuade individual investors from direct investment. In May's last week, there was evidence that investors were increasingly drawn to the higher Treasury yields. The Treasury market had been under pressure after Mexico and the United Kingdom's credit outlook's were reduced to negative from stable by S&P. The ratings actions prompted speculation regarding the viability of U.S.'s AAA rating. On May 21, ahead of the $101B Treasury auction of 2, 5 and 7-year maturities, PIMCO's Bill Gross stated that the U.S.'s rating was at risk. On May 27, Moody's re-emphasized the U.S's rating's stability despite "significant deterioration of the nation's debt." On May 29, Fed's Fisher cast further doubt on the U.S.'s loss of its top credit rating. The presence of the debate in the headlines did coincide with the Treasury 10 and 30-year respective 36 and 30 bps rise and subsequent rally in the last 5 trading days of the month.

MUNI OUTLOOK FOR MAY 2009

Credit concerns remained a factor in the municipal market and credit spreads widened. On May 21, the Bond Buyer 20 GO and 25 Revenue Indices' yield spread widened to 98 bps. On May 28, the spread tightened to 92 bps as high-grade evaluations were correcting with a greater degree of force and leadership, **Figure 2**. Comparable to the end of April when investment grade evaluations rose 16 and 18 bps respectively in 10 and 30-years, in May the same indices rose 19 bps after May 22. A great deal of the ambiguity among credit was perpetuated by the increased concerns regarding California's fiscal health. However at month-end, Nuveen released a report stating that the state's default probability was "extremely unlikely." California's 30-year BAB issues traded on May 29, 35 bps tighter to Treasuries than at the time of issue. Also, in May, Assured/FSA lost their AAA rating, being downgraded to AA+ by Fitch.

Finally, in May, there emerged inflation concerns. The CRB Index increased 14%, the largest monthly jump since July 1974 and oil rose above $65/barrel, a 30% gain. The Fed's Plosser was most outspoken suggesting that the FOMC's failure to tighten appropriately could spur an adverse rate condition akin to the late 1970's.

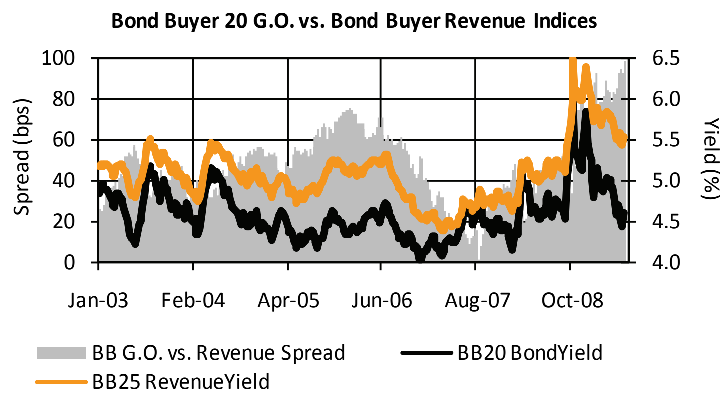

Figure 2: Municipal credit spreads widened to more than 90 bps as measured by Bond Buyer indices. Demand for GO debt remained relatively strong in May.

The *Advisor* is part of the *Tier Subscription Packages* prepared monthly by:
CEO and Founder, Thomas G. Doe & MMA Team.
Tel: 978.287.0014 tdoe@mma-research.com