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.

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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

APRIL WAS DIVIDED INTO 3 PARTS

Consistent with the past 4 quarters, the municipal market extended the trend of the prior quarter into the beginning of the new quarter. April's first 10-days represented a gain of nearly 1 point, (**Figure 1**). The phenomenon of the Build America Bonds (BAB) generated a euphoria in the tax-exempt sector, particularly the longer maturities (i.e. 30-years) and offering yields plummeted. Leading high-grade credits rallied at least 35 bps. However, with the pricing of the $6.8B CA BAB loan, the municipal market reached its highest price. The aggressive and exuberant influence on municipal prices lowered yields to levels that were no longer attractive to the traditional institutional and individual buyer base. From April 22 to the end of the month, municipal prices fell. Investment grade price matrices (represented by LMIS) reflected rising yields of 16 and 18 bps for 10 and 30-year spots respectively. Of note was that in the final sessions of the month, the BAB issues experienced improvement as yields generally outperformed taxable counterparts, namely Treasuries. The UVA and NJ BAB loans in particular posted significant gains in the last trading days of the month. The inclusion of the BAB loans in performance indices may have created a supply/demand imbalance.

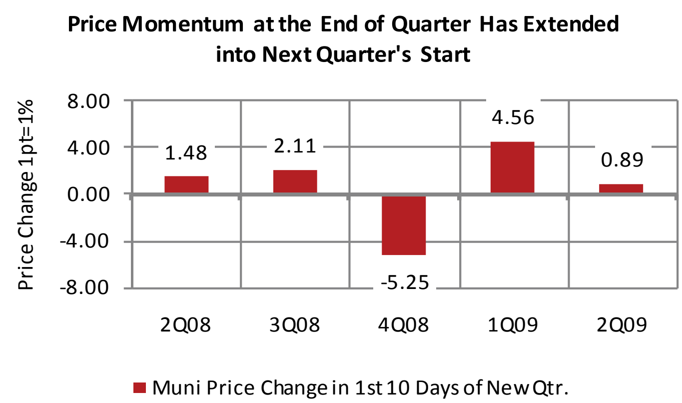
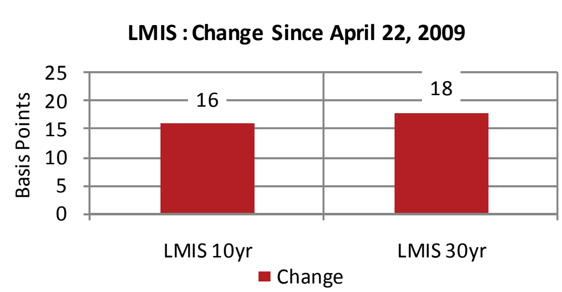


Figure 1: April continued the pattern of the prior 4 quarters, where the closing trend of the prior quarter continued into at least the first 10 days of the new quarter. April's first 10 days were +0.89, and first 15 days were +2.65%.

SUPPLY & DEMAND FLOWS

The *Bond Buyer* estimated that primary municipal issuance exceeded $35B for April. The 12-month total fell to $373B, the lowest since December 2006. A year ago, the 12-month total was greater than $425B. The primary loans were again reflective of bifurcated conditions. High-grade issues were able to capture favorable yields whereas lower-rated issuers (who in the past had benefitted from insurance and tighter spreads to natural high grades) were subject to wider spreads. For example, health care issuers were routinely 200 bps higher in yield than benchmark high-grades. Underwriters tended to price loans cautiously and as a result subsequent transactions and evaluations represented lower yields than at original sale. Nowhere was this more prevalent than in the BAB issues which often surged 30 bps when freed to trade. As the municipal market rallied strongly between April 15 and April 22, bids-wanted par



began to increase. The rising secondary selling often has coincided with leading investors selling into market strength. Indeed, high-grade evaluations were spread more aggressively to MMA's benchmark than on January 15, when the municipal market also reached its limits. Following the CA BAB sale, dealer inventories as represented by measures of offering par, steadily increased in excess of $13B, a historically significantly large total. Even though mutual fund inflows continued, so that in 2009 more than 85% of the 3Q08 and 4Q08 outflows have been recovered, and ETF AUM nearly reached the $3B mark, investors were demonstrating caution amid credit downgrades, ratings warning, extremely low absolute yields and fallen ratios. In addition, the announcement of increased Treasury borrowing in 2Q as well as for 2009 and optimistic comments on the economy from Treasury and Federal Reserve tempered the safety bid for bonds. However, the stability of the banking system remained circumspect amid May's new stress tests and a potential pandemic flu generated more ambiguity. The MMA municipal price indices turned negative on April 29 (**Figure 2**) for the first time since March 19 (during which time the MMA 10-year rallied 24 bps).

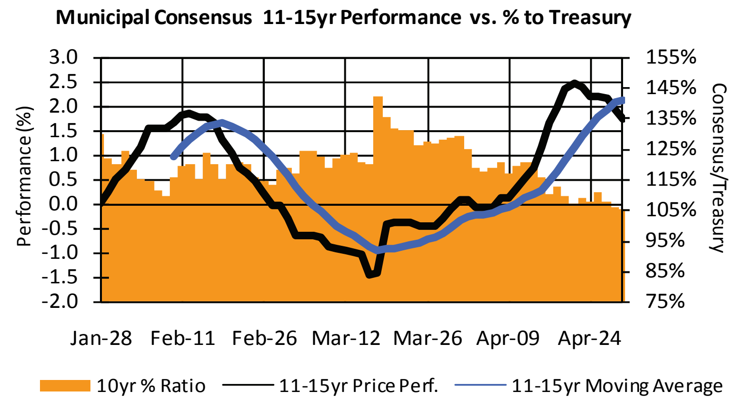


Figure 2: On April 29, MMA's municipal price index turned negative.

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