MMA The Power of Independence

JUNE 2010

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

"Government's greater ability to borrow enables it to defer hard choices but, as Greece discovered, not even governments can borrow forever. The days when state officials may shield their workers while subjecting all other constituents to hardship are fast at an end."

- Roger Lowenstein, NYT, June 27, 2010

MUNICIPAL MARKET RALLIED DESPITE "DEFICIT VIGILANTES"

The municipal market posted positive gains in June as the first half's weakness was overcome by an exuberant rally in the final 10 days. Throughout June there were persistent negative headlines which projected the sovereign debt crisis of Greece and smaller EU members to US states challenged with pension liabilities and uncertain future federal support. However, amid the exuberant headlines that shook the uninformed and generated distribution issues in both the tax-exempt and taxable municipal space, there remained consistent demand for limited tax-exempt supply. Municipal issuance was $30.5B, however, tax-exempt bonds were less than $21B, the lowest total for the month of June since 1997. Non-BAB municipal issuance (predominantly tax-exempt) over the past 12-months has fallen to $306B, the lowest since April 2002 9/11 impacted total. Some of the investor confidence in municipals was derived from the containment of credit impairments and defaults to the riskier and non-rated sectors of the market. Since July 2009, there have been $6.4B municipal defaults of which 66% were initially non-rated. Safe-sector defaults have totaled a mere $34MM, or 0.001% of outstanding municipal bond debt, **Figure 1**. In fact, tax-exempt high-yield debt attracted strong investor demand as exemplified by June's successful sale of $600MM LBJ Infrastructure Group senior lien revenue bonds for the Texas Private Activity Bond Surface Transportation Corp priced with a 7.25% yield. Also, the generic measure of credit spreads, the Bond Buyer 20 GO and Bond Buyer 25 Revenue differential, ended June at 46 bps, only 6 bps wider than its average since 1980. The spread has narrowed from 106 bps in August 2009, which was the widest since 1982. Where there was a reflection of credit concerns was in the BAB market. June's BAB issuance was just shy of $10B. The credit downgrade of IL GO contributed to investors demanding 300 bps above the Treasury

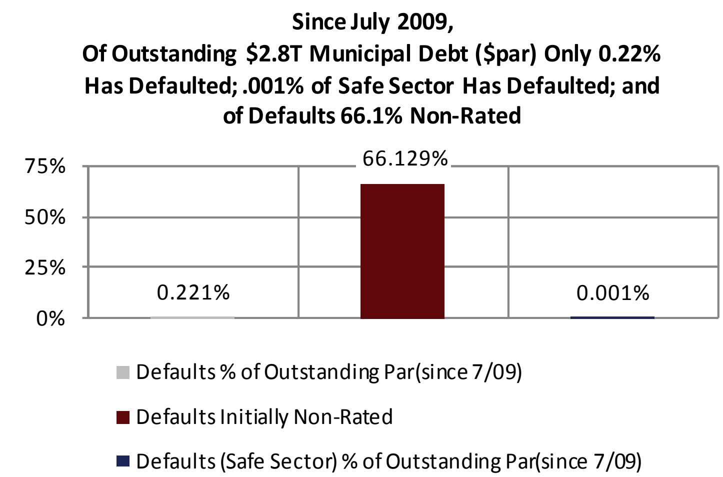

Figure 1: While deficit vigilantes and media focused on the risks of state fiscal conditions, the defaults since July 2009 have been contained to non-rated/risk sector credits, while safe sector problems have impacted a mere $34MM.

benchmark to appease investor concerns, **Figure 2**. In addition, the second component of IL GO issuance was postponed until mid-July despite a robust marketing effort by the state in Europe. Of course the EU's debt crisis might have contributed to investors' distraction. The increased concerns that US and global growth were slowing, reignited a strong demand for US Treasuries, that was led by the 18

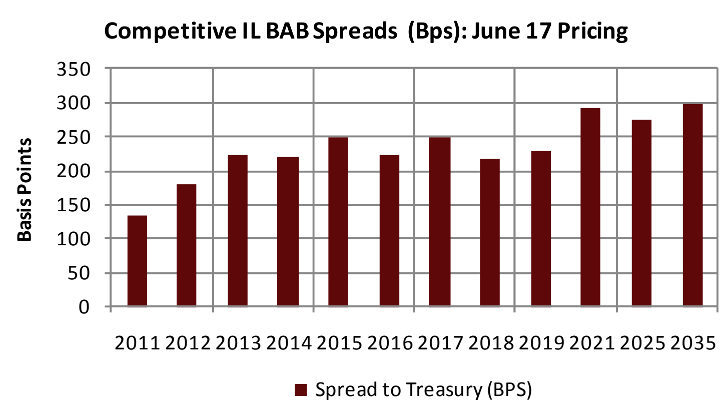

Figure 2: Credit issues did manifest in the taxable municipal BAB market where the investor base may be less knowledgeable and comfortable with municipal credits.

MUNI OUTLOOK FOR JUNE 2010

primary dealers and the large inflows into taxable bond funds. As a result, the municipal tax-exempt/Treasury crossover ratios surged above 100% across the curve, their highest levels since April 2009. ICI reported that nearly $140B flowed into taxable bond funds YTD, as compared to more than $20B exiting domestic equity funds. The strong performance of bonds has also coincided with the highest allocation toward fixed-income in 12 months as surveyed by *Investment Advisor* magazine, and the

IA Asset Allocation 12-Mo. Trend			
Sector	May 3, 2010	High	Low
Stock	51.2%	56.3%	51.2%
Bonds	37.5%	37.5%	29.5%
Cash	11.3%	14.8%	10.1%

lowest allocation toward equities, **table above**. **Fundamentally**, the FOMC reiterated its position to maintain "extraordinarily low rates for an extended period," and US economic data reflected little inflation and benign growth. **In DC**, the extension of the BAB program remained ambiguous and in the hands of the Senate after the House affirmed its support of the continuation of stimulus program for 2 years with lower subsidies.

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