

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 Tom Doe at 978-287-0014 or log on to www.mma-research.com and sign on for a free trial.

MARKET SUMMARY

MUNICIPAL PERFORMANCE FOLLOWED APRIL FORM

After the March Non-farm payroll report was released on April 6, the MMA municipal price index returned to a positive trend and sustained a constructive tone until the end of the month, when the Index fell to neutral. Nonetheless, MMA's price index posted a gain in excess of 1.5%, consistent with the month's historical bias since 2002. The advance was assisted not only by the continued inflows to funds and bank buying, but also an unusually high degree of inter-dealer trading (which represented 20% of secondary activity as compared to April's 15% average since and including 2007). The continued ambiguity regarding the outlook for the US economy, Federal Reserve policy (particularly an enactment of QEIII) and resolution to the EU debt crisis bolstered the demand for safe fixed-income securities including municipal bonds. The municipal market's price pattern in 2012 has been similar to that of 2009, when there was an unusually consistent demand for tax-exempts; (Figure 1) and issuers enjoyed unusually aggressive relative pricing and market access. In 2009, demand was spurred by high yields following the 2008 TOB deleveraging. In 2012, bank and crossover demand have increased interest in municipals and has been complemented by the sustained positive capital inflows into mutual funds. Municipal monthly issuance remained above \$30B, \$33.64B to increase the 12-month issuance pace to more than \$340B, the highest non-BAB total since February 2010. The defining characteristic of the new supply was a high percentage of refundings. So while issuers took advantage of favorable market conditions to restructure outstanding debt there remained a relative dearth of new project financing. Not only were public leaders hesitant to increase debt burdens during the tentative economic recovery, but also investor demand has been constrained by reliance on traditional demand components—individuals, funds and bank portfolios. A contributing factor to municipal bonds' positive low default rate has been the limited traditional demand component linked to the specific investor advantage of the low tax-exempt rate. This characteristic has now become a challenge to the policy debate regarding infrastructure funding and tax-reform, page 10. In April, the political rhetoric regarding tax-exemption's cost and advocacy for a federally subsidized taxable program, failed

MMA Municipal Price Index: 2009 vs. 2012

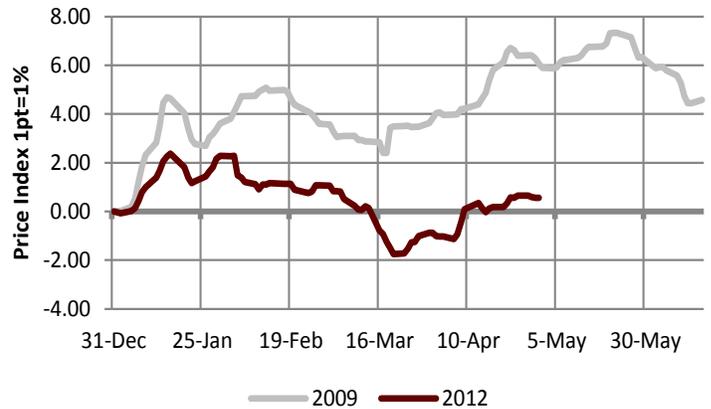


Figure 1: In 2009 the initial rally in early January was far greater than the same period of 2012 (yields were far higher 3 years ago). However, the general price pattern is similar and now the sustained high ratios, ambiguous fundamental conditions and favorable supply/demand imbalance argue for a similar projected price pattern for municipals into June. Also, MMA's Municipal Value Index in 2012 was last similarly as advantageous for issuers in 2009.

1Q12 Municipal Fund TRR by Median Sector Performance (%) : High-Yield Leading Area

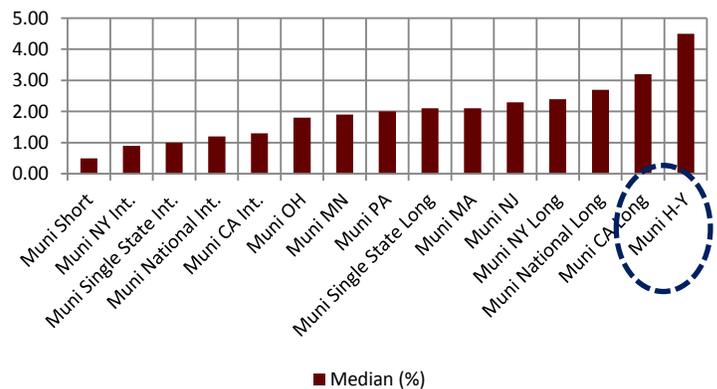


Figure 2: High-yield's leading returns have drawn investor cash, and enabled lower rated issuers access to capital at attractive rates. The leading 1Q12 returns were marketed aggressively by the leading fund families, whose returns were 66% greater than the median, perpetuating market access for challenged issuers.

MUNI OUTLOOK FOR APRIL 2012

to reveal the dilemma of policy makers who desperately want to fund job creating US public infra-structure projects (estimated in excess of \$3T) but have no cash do so, and are frustrated by state and local municipalities' fiscal discipline to abstain from amplifying their debt burden. The result is at least a \$2.7T infra-structure funding gap. The attention refocused policy-makers on US corporate cash as a source of capital for political needs was amplified by a NYT article on Apple's large overseas cash position and low tax payment rate.

The demand for yield resumed, and portfolio strategies extended further out the yield curve and lower down the rating scale. Lower rated issuers were able to gain attractive rates and access to capital, and provide product for the aggressively marketed high-yield mutual funds whose leadership defined 1Q12 returns, Figure 2. Indeed, early May's primary activity will be led by the \$1.8B IL GO issue, an issuer that has defined "headline risk" for the industry, and is apt to benefit from favorable market condi-

tions. Fundamentally, Spain's debt woes rekindled EU concerns and the US Treasury safety-bid. US corporate earnings and benign economic data enabled US equities to rebound at month-end from a weaker than expected March jobs number on April 6 that weighed on stocks.

**The Advisor is part of the *Tier Subscription Packages*
prepared monthly by:**

CEO and Founder, Thomas G. Doe & MMA Team.

Tel: 978.287.0014 t DOE@mma-research.com

MUNICIPAL MARKET ADVISORS: ALL OF THE INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND MAY NOT BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MUNICIPAL MARKET ADVISOR'S PRIOR CONSENT. All information contained herein is obtained by Municipal Market Advisors from sources believed by it to be accurate and reliable. Information and analysis are provided "as is" without warranty of any kind, and Municipal Market Advisors makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information or analysis. Under no circumstances shall Municipal Market Advisors have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error or any circumstance or contingency within or outside the control of Municipal Market Advisors or any of its directors, officers, employees, or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication, or delivery of any such information and analysis; or (b) any direct, indirect, special, consequential, compensatory, or incidental damages whatsoever (including without limitation, lost profits) resulting from the use of or inability to use any such information and analysis. The analysis in this report should be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell, or hold any securities. Investors should consider our opinions in the context of their own financial situation, objectives, and needs. This report should not be used by recipients as a substitute for the exercise of their own judgment. Municipal Market Advisors hereby discloses that we may sell research content or consulting services to companies, issuers, or other persons mentioned in this report. Municipal Market Advisors does not buy, sell, hold or otherwise trade in municipal securities or related derivatives; however, one or more of its directors, officers, employees, or agents may own long or short positions in securities or related derivatives discussed in this report.

—BY USING OUR RESEARCH, YOU ARE HEREBY AGREEING TO THE CONDITIONS AND RESTRICTIONS IN THIS PARAGRAPH—