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.

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- 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

SEASONALS PREVAILED: YIELDS ROSE AMID SUPPLY

The tax-exempt market experienced a weaker October, a condition consistent with the seasonal bias of recent years and that of the late 1990's, when similarly the industry was dependent on the traditional investor for its demand. **MMA**'s benchmark 10-yr yield rose 5 bps during the month. However, **MMA**'s measure of yield change paled to the leading edge of the market, AAA 5% coupons - the "super high-grades." As represented by Wake Co., NC 10-yr maturity experienced a rise of 16 bps, **Figure 1**. Barclay's LMIS Index also rose 15 bps reflecting the sharp adjustment in areas that had reached an excessive price premium in 3Q. The intermediate area of the yield curve was under the most amount of pressure, as investors and proprietary desks sought to sell in the most "liquid" area of the curve. The longer maturities reflected a less adverse change as evidenced by Salt River, AZ's mere 6 bps change (**MMA**'s 30-yr benchmark rose 9bps). Throughout the month, there was greater evidence of challenges to distribute new issue product—the daily average offering par rose above 3Q's pace. The difficulties were exemplified at month-end when the $336MM CT special tax obligation transportation issue had to be cheapened 5 to 24 bps in order to clear the market. This inhibitive condition occurred in spite of a coinciding stable/firm Treasury market.

Total municipal issuance in October reached $42.5B, of which a monthly record, $13.3B were Build America Bonds (BAB). The month's total was less than 2009, and the 12-month tax-exempt (non-BAB) issuance sum declined to $293B. The market's dependence on the traditional investor (individuals and their proxies, mutual funds etc.) became more tenuous as weekly fund inflows remained below $1B. The fund inflows of 2010 remained well below those of 2009 as returns had fallen enough to allow competition from other products, **Figure 2**. The persistent low yields have begun to shift investor interest away from bonds to dividend paying equities that, as the US economy stabilized, offered more growth potential. Indeed, US equities posted their second month of solid returns, led by the 5.8% gain of the Nasdaq, **below**. Also, anemic returns reduced tax-exempt money funds' AUM to the lowest levels since 3Q05, $201B. It

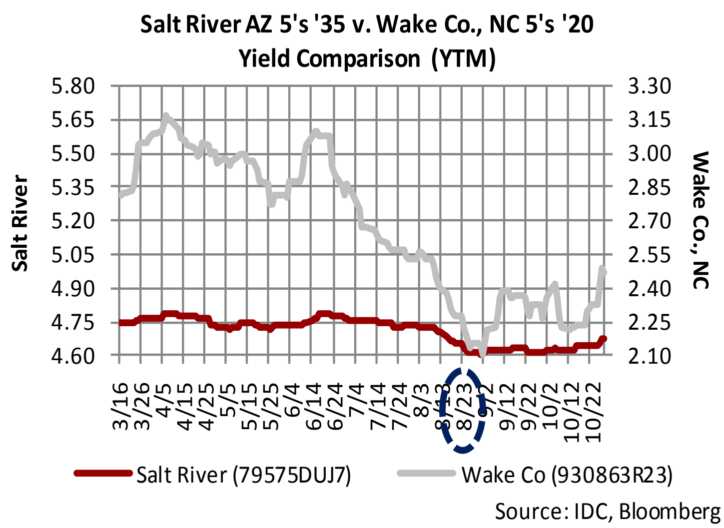


Figure 1: Since the end of August, the municipal market has experienced challenges to sustain its summer rally, has had more difficulty placing new issues and experienced decreased secondary liquidity.

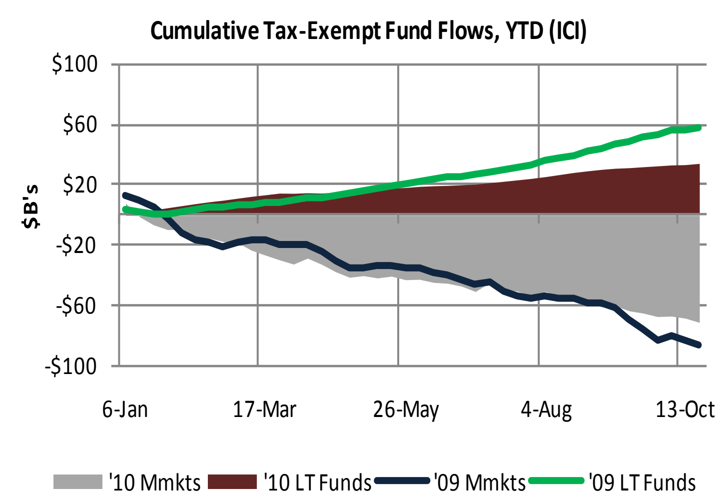
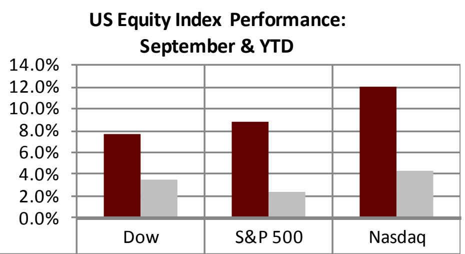


Figure 2: Municipal bond fund weekly inflows remained below $1B, and declined to less than $200MM in October's 2nd week. Money funds continued to lose AUM.

MUNI OUTLOOK FOR OCTOBER 2010



	Dow	S&P 500	Nasdaq
September	7.72%	8.76%	12.04%
YTD	3.45%	2.34%	4.38%

was in 3Q09 that money fund assets were last below $200B.

As October concluded, there was more attention placed on the November 2 elections and November 3 FOMC meeting (expected to outline the magnitude of quantitative easing, QE). The former's outcome could well dictate the future of the BAB program beyond 2010, while the latter could impact investors' inflation outlook in 2011. November 2's ballots contain a mere $16.8B of bond referenda, the lowest total for a mid-term election since 1996.

Credit concerns remained in the forefront of the municipal industry despite little evidence of consequences from adverse headlines. Nonetheless, a report on PR's pension liabilities and management could be fodder for industry concern, while S&P's downgrade of Assured to AA+, signaled the end of AAA bond insurance.

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

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