

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

August 12, 2014



U.S. state government ratings remain concentrated in the higher rating categories according to both Moody's and S&P.

Overall, the outlook for state credit is very mixed with slow growth expected to hinder economic expansion and more downgrades lurking for some.

U.S. State Fiscal Health Update - August 2014

A Stable Outlook for Many, Troubling Trends (& More Downgrades) Lurk for Some

U.S. state government ratings remain concentrated in the higher rating categories according to both Moody's and S&P. States are experiencing respectable momentum: FY14 was the fourth consecutive year states increased general fund spending. This is welcome news considering the extensive budget shortfalls states faced in the wake of the Great Recession. This momentum, other favorable trends, and state government actions resulted in some positive recent rating and outlook actions.

Positive Recent State Rating/Outlook Actions

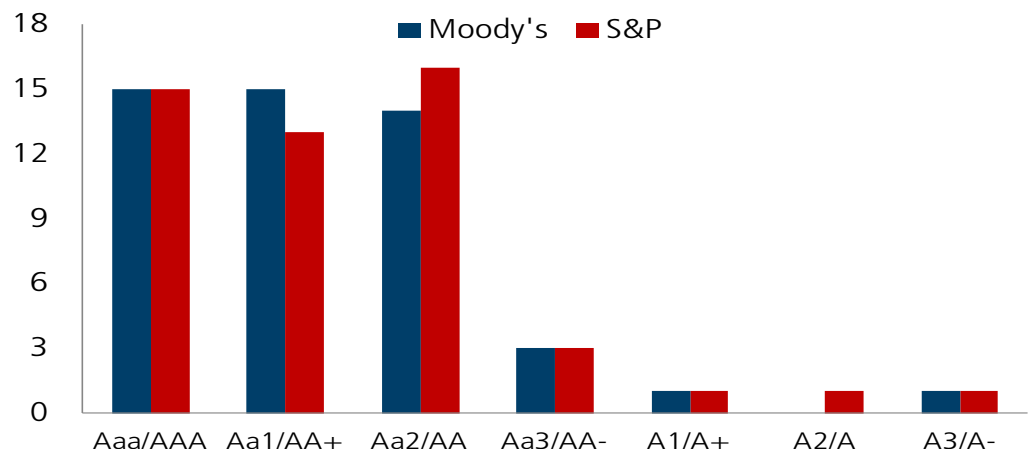
State	Action	Notes	Date	Agency
South Dakota	Outlook raised to Positive from Stable	Improved budget planning and results	8/1/2014	S&P
New York	Upgraded to AA+ from AA	Improved budgetary management	7/23/2014	S&P
California	Upgraded to Aa3 from A1	Improved governance and better finances	6/25/2014	Moody's
New York	Upgraded to AA+ from AA	Improved fiscal management practices	6/20/2014	Fitch
Rhode Island	Outlook raised to Stable from Neg	On budgetary approval for 38 Studios debt	6/18/2014	S&P
New York	Upgraded to Aa1 from Aa2	Improved governance and spending restraint	6/16/2014	Moody's
Maine	Outlook raised to Stable from Neg	Stable economy and revenues drive outlook	6/4/2014	Moody's
Kentucky	Outlook raised to Stable from Neg	Fiscal discipline & auto sector recovery	6/2/2014	Moody's

There have also been several downgrades in the U.S. state sector, however. This is because there are several mostly structural and not cyclical factors eating away at some states' credit quality. Most notable are the downgrades to New Jersey and Pennsylvania ratings because the factors ailing these states are not easily repairable. Spreads are narrow. Overall, the outlook for state credit is very mixed with slow growth expected to hinder economic expansion and more downgrades lurking for some.

Negative Recent State Rating/Outlook Actions

State	Action	Notes	Date	Agency
Kansas	Downgraded to AA from AA+, Neg Out	Structural imbalance and tax cuts	8/6/2014	S&P
Pennsylvania	Downgraded to Aa3 from Aa2	Structural budget imbalance & pensions	7/21/2014	Moody's
Illinois	Lowered outlook to Neg from Developing	Structurally imbalanced FY15 budget	6/23/2014	S&P
Michigan	Lowered outlook to Stable from Positive	Lower in response to softening revenues	6/17/2014	S&P
New Jersey	Outlook to Watch Neg from Stable	Continuing structural imbalance	6/2/2014	S&P
New Jersey	Downgraded to A1 from Aa3	Budget imbalance, rev shortfalls, pensions	5/13/2014	Moody's
New Jersey	Downgraded to A+ from AA-	Ongoing budget strain, still neg outlook	5/1/2014	Fitch
Kansas	Downgraded to Aa2 from Aa1	Slow economic pace, structural imbalance	4/30/2014	Moody's

U.S. State Ratings Distribution- Mostly Still in the Higher Categories



Source for all tables and charts: Moody's, S&P, Fitch & Janney FIS.

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Janney U.S. State Fiscal Health Indicators

State	Bond Ratings (*a lease or ICR)	Spread to 10Y MMD Apr 9, 13	Spread to 10Y MMD Aug 8, 14	Recent Moody's Rating/Outlook Change	Recent S&P Rating/Outlook Change	Recent Fitch Rating/Outlook Change	"Seriously Delinquent" Morts. 2Q14	Unemploy. Rate Jun 2014
Total/Average		17	17				4.8%	6.1%
Alabama	Aa1AA/AA+	17	8	4/16/10	11/27/13	5/3/10	4.6%	6.8%
Alaska	Aaa/AAA/AAA	1	1	11/22/10	1/5/12	1/7/13	1.8%	6.4%
Arizona*	Aa3/AA-/NR	31	30	11/26/13	12/23/11	NR	2.3%	6.9%
Arkansas	Aa1/AA/NR	10	8	4/16/10	1/10/03	NR	4.4%	6.2%
California	Aa3/A/A	38	23	6/25/14	1/14/14	8/5/13	2.7%	7.4%
Colorado*	Aa1/AA/NR	22	21	4/16/10	7/10/07	NR	2.1%	5.5%
Connecticut	Aa3/AA/AA	29	28	1/20/12	9/26/03	7/2/13	6.6%	6.7%
Delaware	Aaa/AAA/AAA	0	0	4/30/10	2/22/00	4/13/06	5.8%	6.1%
Florida	Aa1/AAA/AAA	17	12	4/16/10	7/12/11	8/23/13	9.8%	6.2%
Georgia	Aaa/AAA/AAA	0	0	4/16/10	7/29/97	4/13/06	4.4%	7.4%
Hawaii	Aa2/AA/AA	20	19	5/17/11	10/10/13	6/15/11	5.3%	4.4%
Idaho*	Aa1/AA+/AA	21	21	4/16/10	3/30/11	4/5/10	2.6%	4.7%
Illinois	A3/A-/A-	114	172	6/6/13	6/23/14	6/3/13	6.3%	7.1%
Indiana*	Aaa/AAA/AA+	13	13	4/16/10	7/18/08	4/5/10	5.2%	5.9%
Iowa*	Aaa/AAA/AAA	12	12	4/16/10	9/11/08	4/5/10	3.0%	4.4%
Kansas*	Aa2/AA/NR	15	15	4/30/14	8/6/14	NR	3.4%	4.9%
Kentucky*	Aa2/AA-/A+	22	20	6/2/14	1/31/13	11/8/12	4.6%	7.4%
Louisiana	Aa2/AA/AA	20	18	4/16/10	5/4/11	4/5/10	4.8%	5.0%
Maine	Aa2/AA/AA	20	11	6/4/14	5/24/12	1/23/13	7.0%	5.5%
Maryland	Aaa/AAA/AAA	0	0	7/19/13	5/7/92	4/13/06	6.4%	5.8%
Massachusetts	Aa1/AA+/AA+	17	11	4/16/10	9/16/11	4/5/10	5.4%	5.5%
Michigan	Aa2/AA-/AA	31	30	3/28/13	6/17/14	4/2/13	3.5%	7.5%
Minnesota	Aa1/AA+/AA+	7	7	7/30/13	9/29/11	7/7/11	2.3%	4.5%
Mississippi	Aa2/AA/AA+	21	20	4/16/10	11/30/05	11/15/13	5.6%	7.9%
Missouri	Aaa/AAA/AAA	0	3	7/19/13	2/16/94	4/13/06	3.3%	6.5%
Montana	Aa1/AA/AA+	21	20	4/16/10	5/5/08	4/5/10	1.9%	4.5%
Nebraska*	Aa2/AAA/NR	21	20	4/16/10	5/5/11	NR	2.4%	3.5%
Nevada	Aa2/AA/AA+	24	24	3/24/11	3/10/11	4/5/10	6.8%	7.7%
New Hampshire	Aa1/AA/AA+	7	10	4/16/10	4/21/14	4/5/10	3.3%	4.4%
New Jersey	A1/A+/A+	33	39	5/13/14	6/2/14	5/1/14	11.6%	6.6%
New Mexico	Aaa/AA+/NR	12	12	7/19/13	2/5/99	1/0/00	4.8%	6.5%
New York	Aa1/AA+/AA+	7	7	6/16/14	7/23/14	6/25/14	8.8%	6.6%
North Carolina	Aaa/AAA/AAA	0	0	1/12/07	6/25/92	4/13/06	3.7%	6.4%
North Dakota*	Aa1/AAA/NR	18	18	4/16/10	12/13/13	NR	1.2%	2.7%
Ohio	Aa1/AA+/AA+	20	14	3/16/12	7/19/11	4/11/11	5.5%	5.5%
Oklahoma	Aa2/AA+/AA+	21	20	4/16/10	9/5/08	4/5/10	4.5%	4.5%
Oregon	Aa1/AA+/AA+	8	10	4/16/10	3/10/11	4/5/10	4.5%	6.8%
Pennsylvania	Aa3/AA/AA	25	29	7/21/14	7/19/12	7/16/13	5.5%	5.6%
Rhode Island	Aa2/AA/AA	32	34	7/1/13	5/12/14	7/18/11	6.3%	7.9%
South Carolina	Aaa/AA+/AAA	3	3	12/7/11	7/11/05	4/13/06	4.6%	5.3%
South Dakota*	Aa2/AA+/AA	22	22	5/27/10	3/25/14	8/1/14	1.8%	3.8%
Tennessee	Aaa/AA+/AAA	5	4	12/7/11	7/11/05	4/13/06	4.1%	6.6%
Texas	Aaa/AAA/AAA	7	7	4/16/10	9/27/13	4/5/10	3.1%	5.1%
Utah	Aaa/AAA/AAA	0	0	4/16/10	6/7/91	4/13/06	2.8%	3.5%
Vermont	Aaa/AA+/AAA	6	6	4/16/10	9/17/12	4/5/10	4.7%	3.5%
Virginia	Aaa/AAA/AAA	0	0	7/19/13	1/11/92	4/13/06	2.7%	5.3%
Washington	Aa1/AA+/AA+	20	21	7/19/13	11/12/07	7/19/13	4.1%	5.8%
West Virginia	Aa1/AA/AA+	20	21	7/9/10	8/21/09	7/8/11	3.1%	6.2%
Wisconsin	Aa2/AA/AA	20	20	4/16/10	8/15/08	4/5/10	3.7%	5.7%
Wyoming*	NR/AAA/NR	10	10	NR	5/3/11	NR	1.6%	4.0%

For more specific ratings and outlook data please see "State Issuer Ratings on page 10 in the July 14, 2014 Municipal Bond Market Monthly. Sources: MMD spreads are per Thomson Reuters; Ratings data is from Moody's, S&P and Fitch; Mortgage foreclosure & 90 days past due data (non-SA) from the Mortgage Bankers Association. Unemployment rate (SA) per the Bureau of Labor Statistics and Janney FIS.

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