Municipal Bond Market Monthly

JANNEY FIXED INCOME STRATEGY

May 22, 2014

Janney
CAPITAL MARKETS

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The Rime of Municipal Bond Issuance

- The Rime of Municipal Bond Issuance will drop 2014 total municipal bond sales to between $250 and $275 billion- we cite six reasons why.
- Factors include: higher interest rates; use of direct bank loans; austerity measures; less flexibility in spending; political and voter attitudes; and the lack of broad public policy supporting infrastructure spending.
- The same factors will cause issuance to fall further in the next one to three years.
- Low issuance is helping to make the current environment an issuers' market. Demand for municipals is strong. Buyers continue to shake off important and mostly negative credit trends.
- We revised our outlook on the Airport sector from to "Stable" from "Cautious" back in February 2014. The sector has stabilized after uncertainty and stress caused first by the 9/11 attacks and subsequently by the Great Recession. We included some highlights from a May 9th update.
- Cigarette consumption trends are not favorable; we urge a cautious approach to tobacco bond investing, since a variety of factors point towards further reductions in smoking in the U.S.
- Kansas was downgraded by Moody's; New Hampshire's outlook lowered by S&P; New Jersey's rating was downgraded by Moody's, S&P & Fitch; Rhode Island was put on Watch for a Downgrade by S&P.

Technical Market Commentary

The Rime of Municipal Bond Issuance

Issuers, issuers, everywhere,

So many needs to satisfy

Issuers, issuers, everywhere,

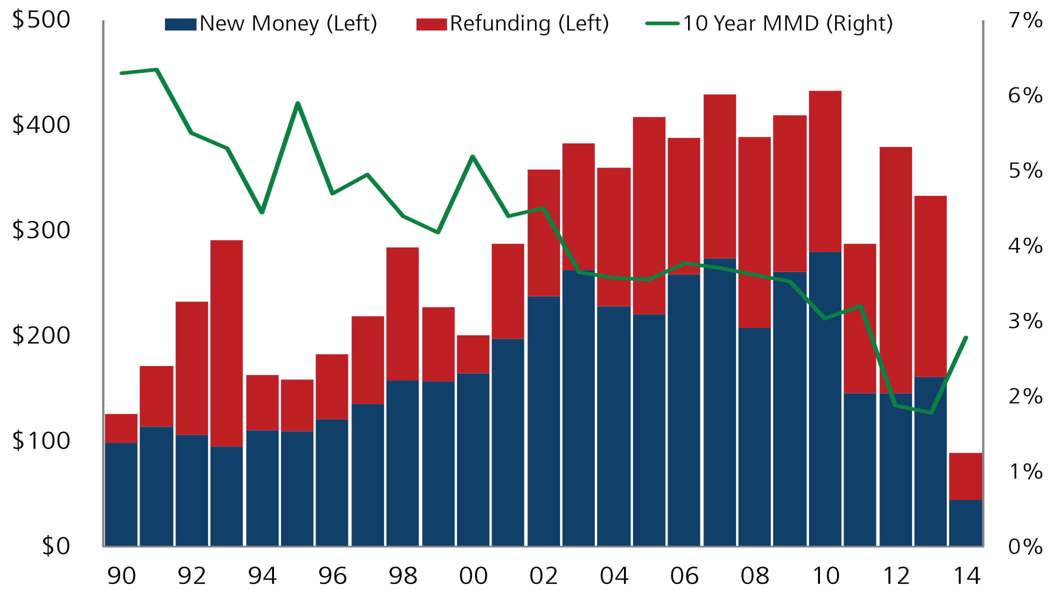
Hardly a bond to buy.

We played on English poet Samuel Taylor Coleridge's 1798 work titled "The Rime of the Ancient Mariner," which was mostly about the desolation of seafaring, to illustrate modern municipal bond buyers' mood about the amount of supply available in the municipal bond primary market. So far to date, issuance has been very, very low. There are several very clear and intuitive reasons for The Rime (or frost) of this year's issuance. But, there are also some other less clear and less talked or written about reasons why there has been such a cooling of issuance activity. We will explore these factors. And our expectation is that this lower issuance trend is likely to continue in the near term. Our forecasts can be found below.

Levels of inquiry rose over the topic of municipal bond issuance as interest rates started to rise last year and interest rates (and concern) have remained at relatively high levels compared to the beginning of 2013. Rising rates were expected to be the main culprit in keeping refunding issuance down, this is one of the intuitive factors we expected to affect 2014 results. Most others predicted 2014 issuance would suffer accordingly. But new money issuance is also down significantly and on a pace that has not been seen since William Jefferson Clinton occupied the White House, Elton John held the #1 spot in the pop charts, Apple (AAPL) stock was barely $10 a share and NBC's E.R. was television's most popular nighttime program. If we annualize new money issuance so far this year, we get $133 billion. New money sales have been down since 2011, but not since 1996 and 1997 has new bond sale activity been so low.

The 2014 Municipal Bond Issuance Survey, conducted by SIFMA, forecast long-term issuance of about $309 billion for 2014 (we should note that SIFMA and Thomson Reuters issuance numbers are slightly different – we tend to cite Thomson Reuters data). The SIFMA survey was conducted back in November and December 2013, and we think that it was fairly aggressive in its finding - that total

Issuance Will Remain Lower Compared to Recent Years as Rates Rise



Source: Thomson Reuters and Janney FIS.

So far to date, municipal issuance has been very, very low.

The 2014 Municipal Bond Issuance Survey conducted by SIFMA forecasted long-term issuance of about $309 billion for 2014.

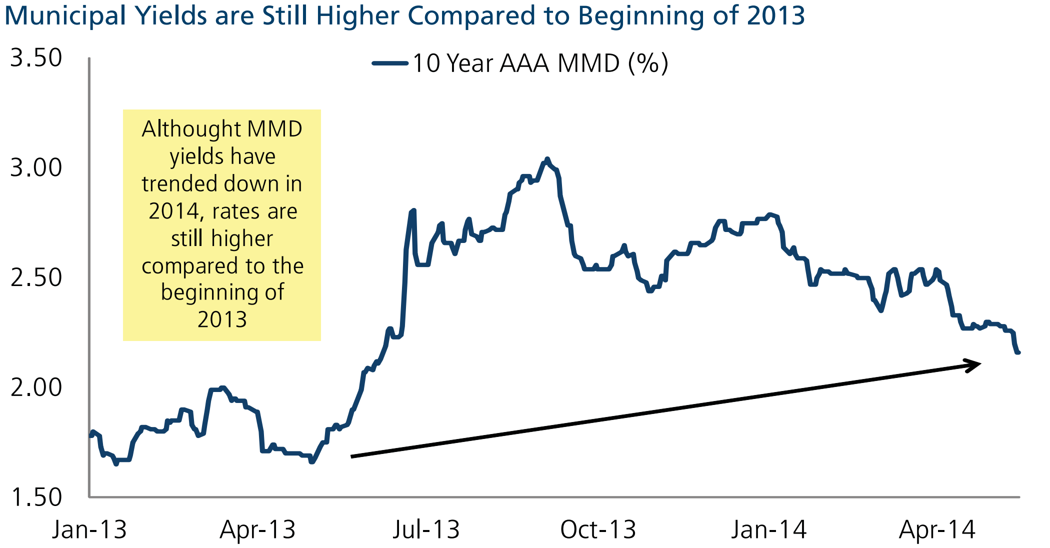
We think issuance will come in somewhere between $250 and $275 million as of December 31, 2014.

long-term issuance would only be down slightly. Total long term municipal issuance was about $333 billion in 2013, down from the $379 billion of bonds sold in 2012. Through the first four months of 2014 (end of April) there has been $89 billion of municipal issuance- annualize those results and issuance based on the first part of the year would end up at only about $270 billion. That is between the $200 billion and $287 billion sold in 2000 and 2001. In all, we think issuance will come in somewhere between $250 and $275 million as of December 31, 2014.

Why Do We Think Issuance will be so Low?

- Higher interest rates;
- Select issuers are using other debt products (like direct bank loans);
- Austerity measures due to a lower revenue trend in the wake of the Great Recession;
- Less flexibility in spending- fixed costs crowding out other spending & investment;
- Political and voter attitudes;
- No broad public policy support of infrastructure spending.

Municipal Yields are Still Higher Compared to Beginning of 2013



Source: Thomson Reuters and Janney FIS.

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Less refunding issuance is a commonly cited factor expected to minimize supply.

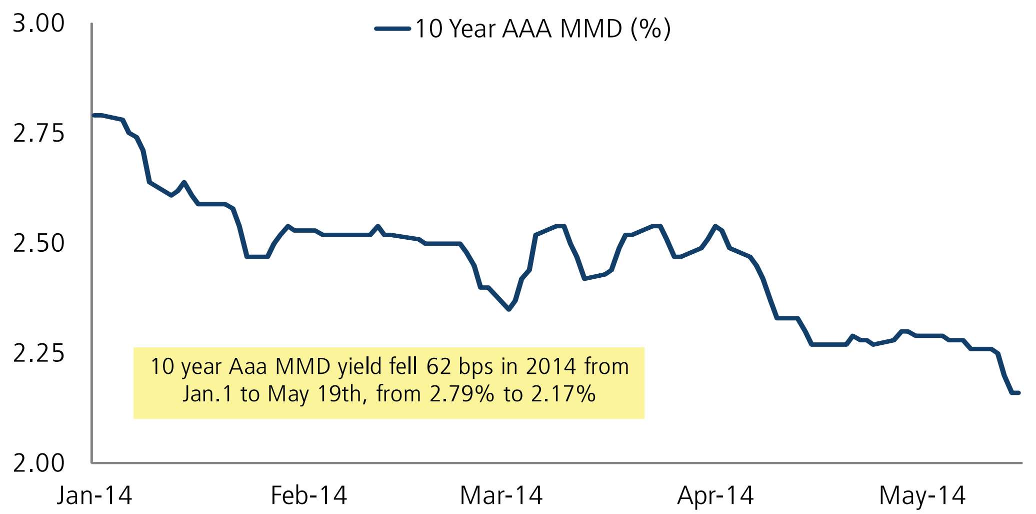
Direct bank loan issues are not included in the Thomson Reuters data.

Austerity is most often used to describe spending policies municipal issuers use when they are trying to bring spending back in line with revenues.

Higher Interest Rates Will Lead to Lower Issuance

Less refunding issuance is a commonly cited factor expected to minimize supply. This will occur mostly because refundings will no longer make economic sense and will no longer create savings as rates rise. Higher interest rates could also result in lower overall new money issuance too. It is increasingly more expensive to add debt to a balance sheet as interest rates rise. So, issuers will minimize the practice the higher rates go. It is interesting to note that municipal yields have fallen sharply so far in 2014 and issuance is still low. The fact that issuance has been low in this falling interest rate environment makes a strong case for our qualitative reasons as to why we expect issuance to be low. The interest rate environment is not the only factor causing municipal issuers to minimize their capital markets activity. Several other factors are also to blame if one bothers to pull up the hood and examine what is cooling the municipal issuance engine.

Ironically, Although Rates Moved Sharply Lower This Year, Supply is Still Down



Source: Thomson Reuters and Janney FIS.

Use of Alternative Debt Products are on the Rise

Many different types of municipal issuers, especially those in the health-care; higher-ed and local government sectors have found direct bank loans to be a valuable alternative to selling debt in the public financial market. Direct bank lending is a broad concept. It can include products such as direct bank loans and credit facilities among others. Much of the increase in recent bank related activity has been from the use of direct bank loans or placements. These types of loans are not included in the Thomson Reuters data. They are used as an alternative for variable rate bonds. Except, bank loans have proved to be less costly in many situations for issuers. Bank lending became a viable alternative to bond issuance several years ago and it could likely continue in the near future. S&P noted in a February 2014 report that it reviewed or rated 173 direct-loan issues totaling $10 billion from 2011 to 2014. The rating agency went so far as to estimate that direct loans might account for as much as 20% of municipal issuance.

Austerity Measures Due to a Lower Revenue Trend in the Wake of Great Recession

Austerity is most often used to describe spending policies municipal issuers use when they are trying to bring spending back in line with revenues. In a January 2014 analysis, we reiterated our "Cautious" outlook on the local government sector, while we highlighted an important factor investors should monitor. The analysis is related to the trend of local government tax revenues that has occurred after 2010 compared to tax revenues received before 2010.

Issuers have used several strategies to balance their budgets in the wake of the Great Recession - or, in other words, strategies to keep spending in line with the green line trend. A majority of local government budget dollars are spent on employee/labor related purposes. And a key austerity measure local government used in the last few years was to cut employment.

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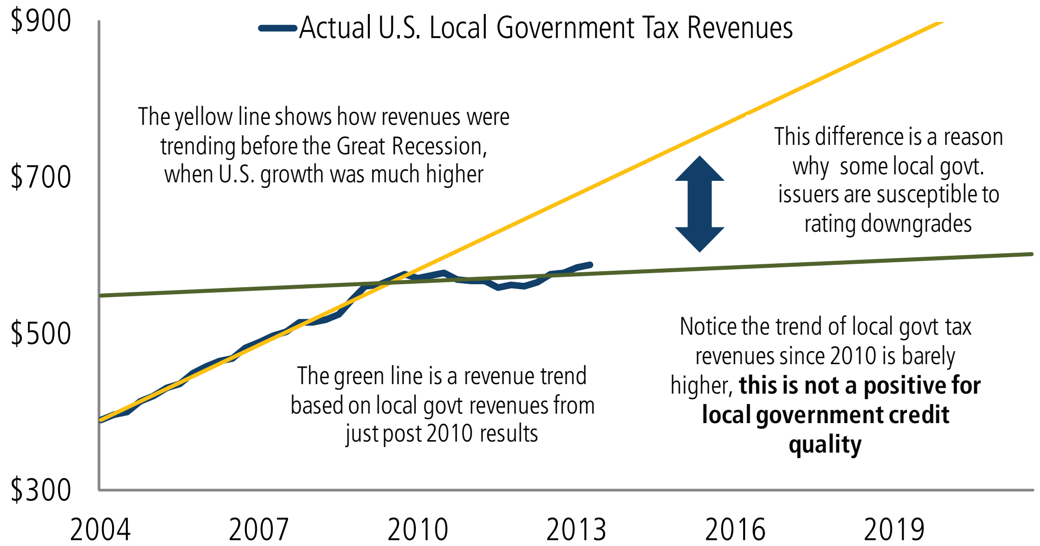
It has been very difficult for issuers to rationalize the sale of new debt when they have been grappling with these types of massive austerity measures.

Austerity measures have only been able to get issuers so far during their budgeting process.

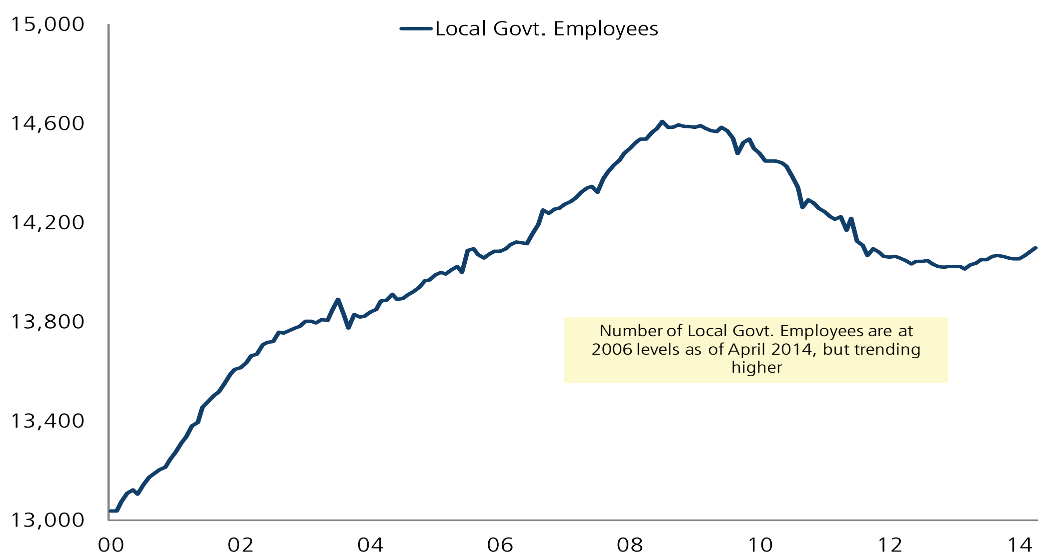
Risk Factor to Watch - Local Govt. Revenues Not Trending Close to Pre-2010 Levels



Source: U.S. Census Bureau and Janney FIS.

It has been very difficult for issuers to rationalize the sale of new debt when they have been grappling with these types of massive austerity measures. On top of that, the difficult budget seasons since 2009 are still fresh in the minds of many issuers. From 2009 until today issuers have come to appreciate budget flexibility. Fixed costs such as debt service minimize that flexibility. Therefore, many issuers are unlikely to add fixed costs in the near term – especially those who are planning for a financial downturn or recession in the near term.

Cutting Employment Was a Key Austerity Measure Used by Local Governments



Source: U.S. Bureau of Labor Statistics and Janney FIS. (# in thousands)

Less Flexibility in Spending - Fixed Costs Crowding Out Other Spending/Investment

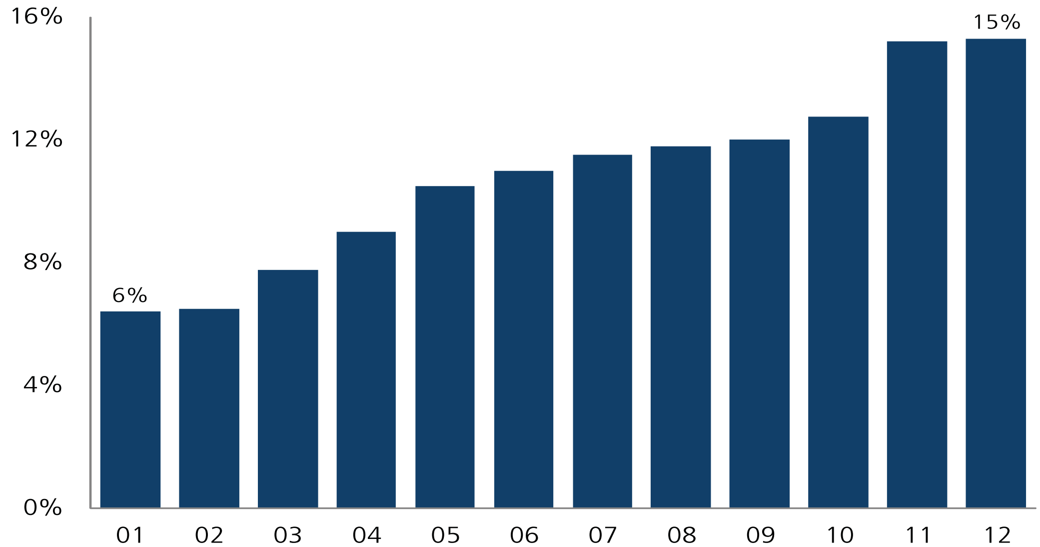
The other part of the budget story that issuers are facing right now, in addition to austerity measures, has to do with managing rising fixed costs. Austerity measures have only been able to get issuers so far during their budgeting process. There is another budget dilemma, almost as difficult to navigate as lower revenues (sometimes more difficult – like in Chicago) that issuers must grapple with. That dilemma is how to react to an increased lack of flexibility where spending is concerned. In recent

For pensions, the annual required contribution (ARC) as a % of payroll has more than doubled in 10 years.

The most overlooked factor that is causing issuance to remain so subdued is a result of the attitudes of political actors, which are directly related to the public who votes them in and out of office.

We believe political actors think: There are no votes in fixing infrastructure.

Annual Required ARC Contribution as a % of Payroll



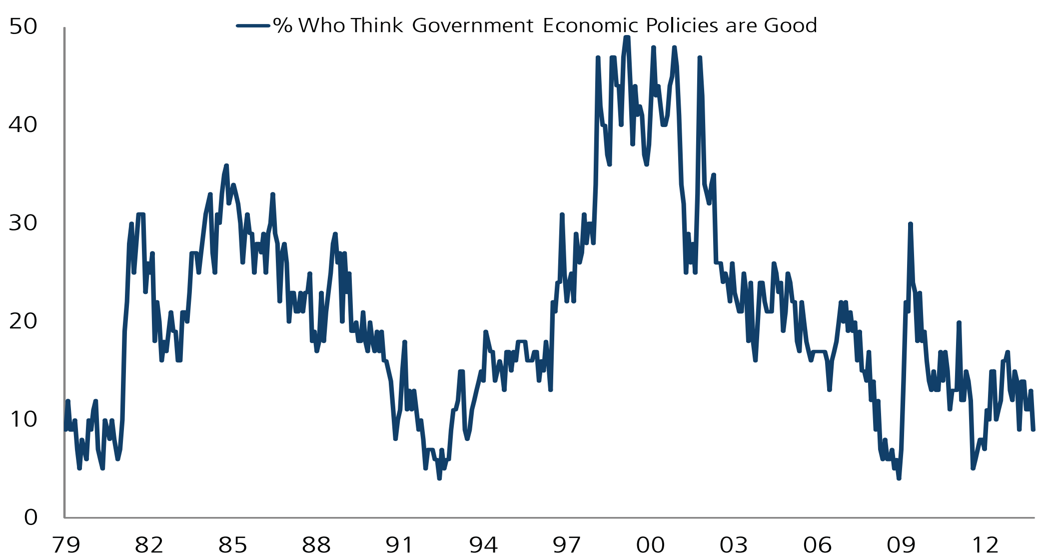
Source: Center for Retirement Research at Boston College and Janney FIS.

years fixed costs have been creeping up on issuers who thought revenues would come in at a pace closer to the yellow line in our graphic above. Items that are included in the fixed cost category most commonly come in the form of debt- like loans or pension obligations. For pensions, the annual required contribution (ARC) as a % of payroll has more than doubled in 10 years as calculated by the Center for Retirement Research at Boston College in analyzing the funding for state and local government pensions. Issuers are starting to make room in their budgets for similar trends for the future. In the best cases this simply means other spending will not occur, an important reason issuance will suffer. In the worst cases, like in Chicago, massive credit deterioration and further downgrades are likely to follow if the political will does not materialize to balance the city's rising fixed costs.

Political and Voter Attitudes - There is Nothing Politically Sexy about Infrastructure

The most overlooked factor that is causing issuance to remain so subdued in 2014 (and in the next 1-3 years) is a result of the attitudes of political actors, which are directly related to the public who votes them in and out of office. We believe political actors think: There are no votes in fixing infrastructure. Sure, sometimes there is a ribbon cutting for an economic development project, but

Attitudes Toward Government Economic Policies are Near All Time Lows



Source: University of MI - Survey of Consumers and Janney FIS.

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Political actors are generally not going to take a chance to support such spending, or spending that will not prove to be attractive to voters.

The need for infrastructure funding and spending is clear. The solution is not so clear.

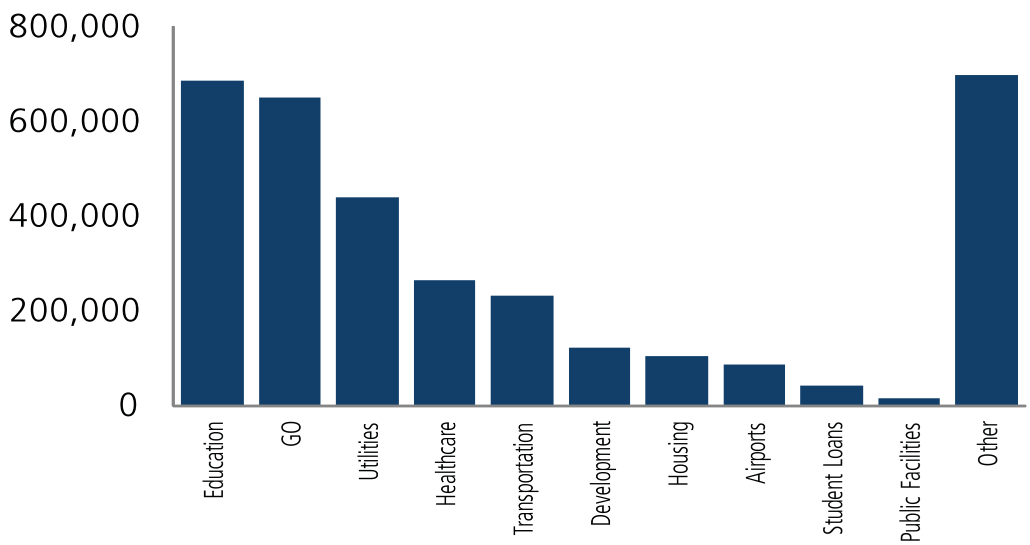
One of the problems with representative government is that is often takes a crisis or emergency to shift attitudes.

nothing that would drive voters to the polls. In these tough economic and politically divisive times, political actors have to spend their time on high priority issues. They are too often not going to gain a majority of political support for selling debt; in fact politicians are more likely to get attacked because such an action might not be considered fiscally conservative. There is nothing politically sexy about infrastructure spending. Political actors are generally not going to take a chance to support such spending, or spending that will not prove to be attractive to voters. This is an important dynamic which needs to be overcome before higher levels of issuance begin again.

No Broad Public Policy Support of Infrastructure Spending

Although the municipal bond market is an effective tool for state and local governments to access private capital and finance infrastructure projects (most municipal bonds finance "infrastructure" projects), the use of bond financing remains low because of a lack of broad federal, state, local government and voter support for infrastructure spending. Some attention is paid to the topic and there are even some advocates for infrastructure spending. But, there is currently no broad public policy support or vision for infrastructure spending. The Recovery Act's Build America Bond (BAB) Program was considered successful, that is until the federal government Sequestration reduced the subsidy to issuers. Sequestration also reduced (practically eliminated many would say) the likelihood that any BAB-like product would ever be embraced by the issuer community again.

Total Amount ($) of Municipal Bonds Outstanding by Use of Funds



Source: SIFMA, Bloomberg and Janney FIS. ($ in millions)

The need for infrastructure funding and spending is clear. The solution is not so clear. The American Society of Engineers assigned a "D+" to the country's infrastructure status in its 2013 Report Card for America's Infrastructure. The group estimates that $3.6 trillion of investment is required by 2020. Even Larry Summers is calling for more government spending on infrastructure as a solution to broader economic slowing, and to help cure what he refers to as the economy's secular stagnation. Congressional proposals to bring back BAB-like products have been plentiful recently; however, we do not think such proposals will go anywhere. We see no broad support for them in Congress, firstly, and no issuers are going to support a federal program where the rules can be changed. Municipal issuers feel burned by the BAB subsidy cut and they will likely not put themselves in a situation where they are expecting a subsidy or support from the federal government and then do not receive it.

Federal lawmakers likely already understand this issuer opinion about BABs. And that could very well be why they so often propose BAB-like products – because then they can say they have offered potential solutions, meanwhile they know issuers would never sign off on them. The unfortunate result is that it is very likely that broader public policy in support of infrastructure will likely not occur until irreversible consequences have been experienced. One of the problems with representative government is that is often takes a crisis or emergency to shift attitudes.

What could change our forecasts?

What Could Change Our Issuance Forecasts?

- Interest rates could fall sharply, allowing issuers to refund more debt for savings (likelihood- slightly possible);
- A change in the direct bank loan trend - higher interest rates, or additional requirements could make the option less attractive to issuers (likelihood- possible);
- Issuers (and voters/political actors) attitudes and public policy could adjust (likelihood- not very likely in the near term);
- An evolution or renewed interest in the use of variable rate type bonds (or similar products) that would allow issuers to refund at more attractive rates;
- Larger issuers could bring more debt not expected on the calendar (likelihood- possible but not likely enough to move the needle on issuance for the year);
- A federal fiscal stimulus (Practically impossible in 2014, unlikely in 2015, but odds and potential need increases every year the economy get closer to the next recession. The current political environment is a barrier, if it persists, passing a stimulus could be more politically difficult than in the past).

Municipal Bond Primary Market Issuance is Likely to Fall in Coming Years

Actual Issuance				Janney Forecasts			
2010	2011	2012	2013	2014	2015	2016	2017
$433	$288	$380	$334	$250-275	$225-275	$200-250	$175-225

Source: U.S. Bureau of Labor Statistics and Janney FIS. (# in thousands)

We think overall primary market issuance will come in around $250 - $275 billion this year.

In Summary:

- We think overall primary market issuance will come in around $250 - $275 billion this year. In addition, we think The Rime of Municipal Bond Issuance led by these six factors will push issuance even lower in the near term (next 1-3) years. We expect this to be in a range that is between $175 and $275 billion (and even this range could be optimistic).
- Higher rates will drastically reduce all issuance. Also, the years of $300 billion+ of total issuance are likely in the past. A higher interest rate environment and our other qualitative factors will help keep new money issuance closer to pre-2000 levels.
- Complicating the next few years will also be the fact that there is likely to be another recession that issuers will need to respond to. Coming out of a recession (unless there is fiscal stimulus) is likely to keep issuance tapered too.
- Only a change in attitudes and a reprioritization of spending on infrastructure, and investing for the future is likely to increase issuance. These are tremendous barriers to overcome without a crisis or other incentives. **Tom Kozlik**

We expect issuance to be in a range that is between $175 and $275 billion between 2015 and 2017.

An Issuer's Market

Demand is Strengthening

Low issuance is helping to make the current environment an issuers' market. Demand for municipals is strong, rates are historically low, and spreads are tight. There are several other trends that indicate to us that the municipal bond market, as it currently stands, is favorable for municipal issuers. Please see our page of technical market indicators on page 11 for more data.

- Buyer demand is strengthening – flows have turned positive in 2014 versus 2012 and 2013;
- Buyers are shaking off significantly negative credit news and events such as:
  - Recent negative developments in Puerto Rico and IL specifically last week;
  - State revenues are not increasing as quickly as in recent quarters;

Low issuance is helping to make the current environment an issuers' market.

- Broader trends of significant credit deterioration in important US states;
- Downgrades (Moody's) still significantly outpacing upgrades (since 2009)
- Issuers are ratings shopping, usually favoring S&P mostly as a result of S&P new criteria (raised local govt. ratings) and issuers often choose not to use a Moody's rating;
- Many local governments are not dealing well with the post-Recession period from a budget perspective, risk for increased downgrades. **Tom Kozlik**

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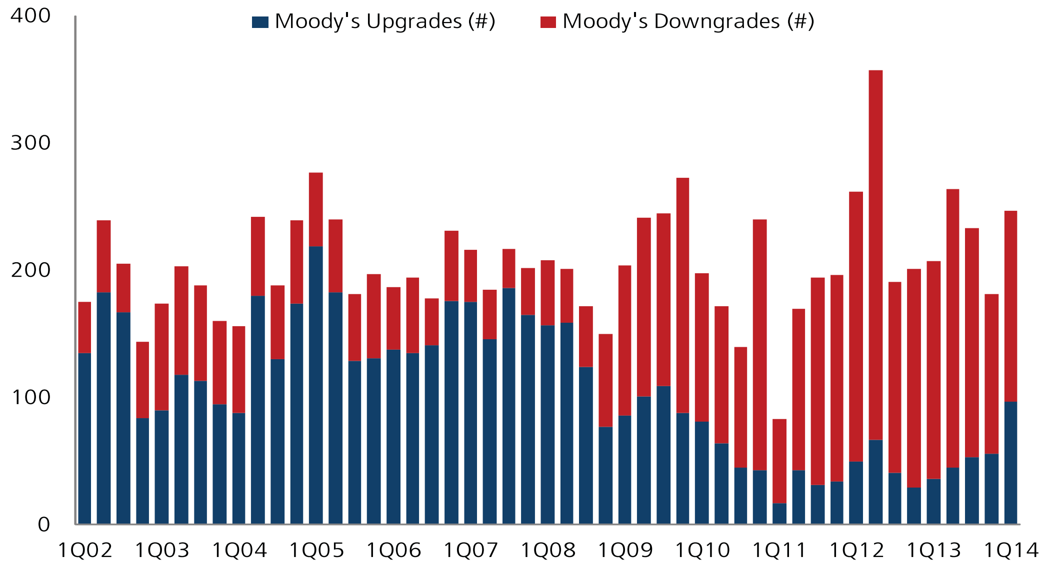
Buyers Have Shaken Off Negative Trends, Like More Downgrades, Since 2009



Source: Moody's and Janney FIS.

Janney Municipal Sector Outlooks and Reviews

Airport and Tobacco Sector Reviews

We currently have a "Stable" outlook on the Airport sector.

Just a few weeks ago we published a research note with key take-aways from the Airport sector. A few highlights are below. We currently have a "Stable" outlook on the sector because it looks like the Airport sector has stabilized after uncertainty and stress caused first by the 9/11 attacks and

Janney Municipal Sector Credit Outlooks and Reviews

Sector	Janney Credit Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Municipal Bond Index	-	-	0.50%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	0.58%	Moody's raised outlook back to "Stable"	Feb 2014 MBMM
Local Government	Cautious	Same	0.67%	Budgets squeezed, pension related downgrades	Feb 2014 MBMM
School Districts	Cautious	Same	-	Credit deterioration will continue, but remain limited	Feb 2014 MBMM
Airports	Stable	Same	0.90%	Added capacity should drive enplanements higher	May 2014 Note
Health Care	Cautious	Same	1.00%	Reimbursement uncertainty, margins pressured	Feb 2014 MBMM
Higher Education	Cautious	Same	0.67%	Enrollment declines equal financial stress	Feb 2014 MBMM
Housing	Stable	Same	2.25%	Some benefits for HFAs from higher interest rates	Feb 2014 MBMM
Public Power (Elec.)	Stable	Same	-0.38%	Essential purpose nature enhances stability	Feb 2014 MBMM
Tobacco	Cautious	Same	N/A	More downgrades, consumption dropping	May 2014 MBMM
Toll Facilities	Cautious	Same	0.90%	Activity is leveling off, but still near 2004 levels	Feb 2014 MBMM
Water and Sewer	Stable	Same	0.61%	Essentiality factor, system upgrades looming	Feb 2014 MBMM

Source: Barclay's Capital as of April 30, 2014 and Janney FIS.

subsequent stress cause by the Great Recession. This month we update our take on the Tobacco sector. It looks like investors have become increasingly interested in the sector because it is one that can offer some relatively high returns in the municipal bond market. But, we still have a "Cautious" outlook on the Tobacco sector.

We revised our outlook on the municipal Airport sector from to "Stable" from "Cautious" back in February 2014.

Municipal Airport Sector Update

Raised Outlook to "Stable" from "Cautious" in February 2014

We revised our outlook on the municipal airport sector from to "Stable" from "Cautious" back in February 2014. What follows is an excerpt from our full report of May 9, 2014 titled "Municipal Airport Sector: Headwinds Have Receded."

In Summary - We See Several Favorable Trends

The Airport sector of the municipal bond market has stabilized after uncertainty and stress caused first by the 9/11 attacks and subsequently by the Great Recession.

- Revenues backing general airport revenue bonds (GARBs) include landing and terminal rental fees from airlines as well as revenue from various airport concessions. Passenger facility charges (PFC) often secure PFC backed bonds or hybrid bonds backed by both general revenues and PFCs.
- High exposure to single airlines or large amounts of connecting traffic can interject a degree of uncertainty into airport finances.
- Risks associated with airline bankruptcies, fiscal stress and resultant mergers and consolidation are receding, with the four major airlines now accounting for more than 60% of US enplanements.
- Municipal bond investors should consider owning airport bonds as a portion (5% to 10%) of a diversified municipal bond portfolio.

The Airport sector of the municipal bond market has stabilized after uncertainty and stress.

Airports are critical elements of the national and international transportation system and important anchors to US economic prosperity. Four of the world's ten busiest airports are located in the United States, topped by number one ranked Atlanta's Hartsfield-Jackson International Airport, although if traffic of the three airports owned by the Port Authority of NY-NJ (JFK, Newark and LaGuardia), were aggregated, they would take top status. After falling off in the post recession period, enplanements in the US are again growing, with passenger traffic at the 29 large hub airports exceeding pre-recession levels in the past two years. However, if all 515 airports with FAA towers are considered, traffic is still just below the 2007 high point. The most recent Federal Aviation Administration Forecast projects that enplanements at the top 29 airports will grow at a 2% annual rate over the next five years and at a 1.9% annual rate through 2040.

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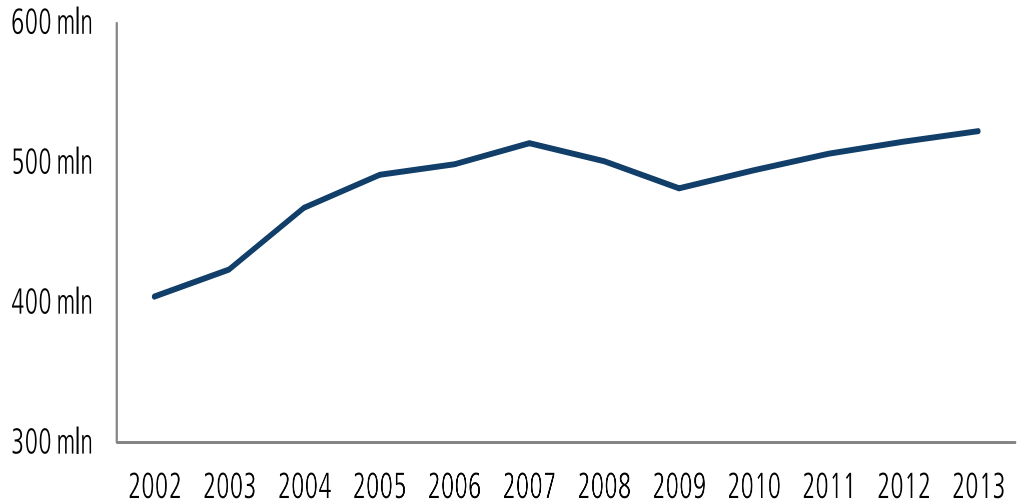
Annual Enplanements at Major U.S. Airports Have Recovered to Pre-Recession Levels



Source: U.S. Department of Transportation and Janney FIS.

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The municipal airport sector has stabilized in recent years, with most issuers rated in the A and AA categories. Recent airline consolidation may have negative impacts on certain locations, but in general, we believe that the airline industry, which to a large extent underlies creditworthiness of the airport sector, is on its strongest financial footing in more than a decade. The outcome of the American-US Air merger has yet to fully play out, with the potential for flight reductions and de-hubbing remaining, which could disproportionately affect airports with large concentration of American or US Air enplanements. Municipal bond investors should consider owning airport bonds as a portion (5% to 10%) of a diversified municipal bond portfolio. **Alan Schankel**

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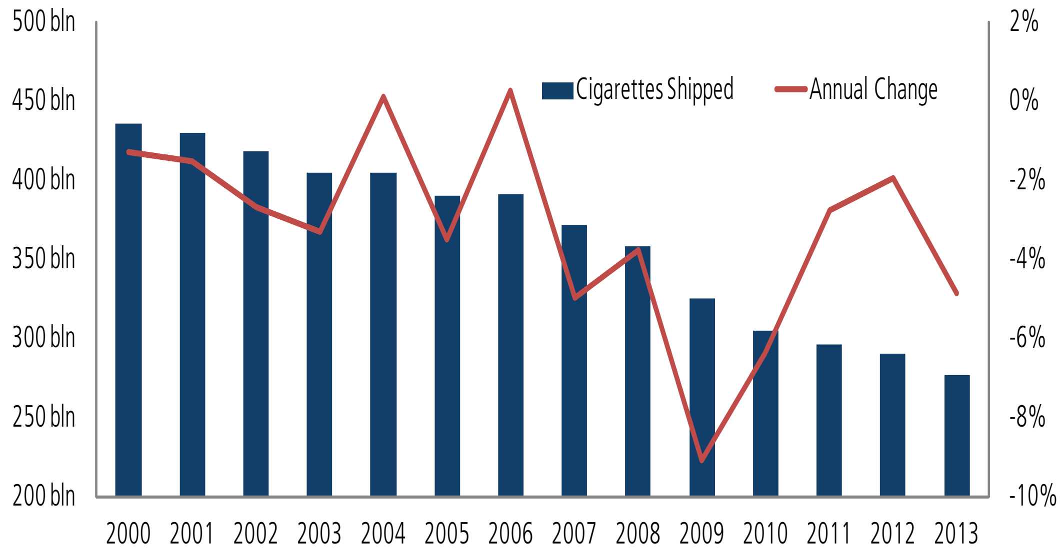
TOBACCO BOND SECTOR UPDATE

With tax free yields as low as they've been in nearly a year, investors are increasingly attracted to high yield tax free bonds or mutual funds focused on the high yield municipal sector. Tobacco bonds, issues secured by payments under a 1998 Master Settlement Agreement between 46 states and the four major cigarette manufacturers (now three), are a major component of the muni high yield universe, comprising for example more that 10% of the largest municipal high yield ETF ($1 billion), High Yield Municipal Index ETF (HYD). The most recent data from the National Association of Attorneys' General (NAAG) reinforces our "Cautious" outlook.

Cigarette Smoking in the U.S. Declined by 5% in 2013



Source: National Association of Attorneys General and Janney FIS.

The underlying theme for tobacco bond investor consideration is the seemingly inexorable pace of cigarette smoking decline in the United States.

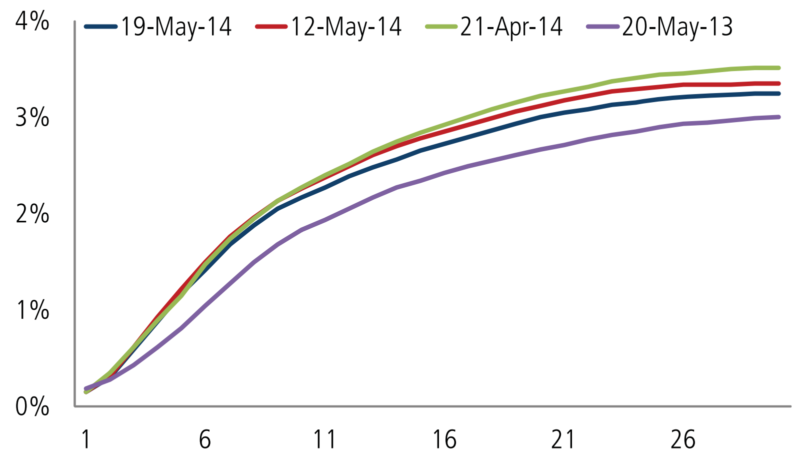
The most recent data from the National Association of Attorneys' General (NAAG) reinforces our "Cautious" outlook.

The underlying theme for tobacco bond investor consideration is the seemingly inexorable pace of cigarette smoking decline in the United States. The amount of each annual payment to the states is based on a variety of factors, but none has more weight than the number of cigarettes shipped each year. Many tobacco issues were structured based on assumptions that the pace of cigarette smoking would diminish by 4% or less each year. If cigarette consumption in the United States did not decline by more than 4% annually, the issues were likely to pay interest on time as well as principal at maturity. A tripling of the federal excise tax on cigarettes in 2009 threw a major wrench into assumptions, with smoking falling by more than 9% in 2009 and by 6% in the subsequent year, but 2010 and 2011 saw consumption fall by only 3% and 2%, seemingly putting tobacco issues back on sub 4% smoking decline path. Perhaps fueled by expansion of use of e-cigarettes (not covered by MSA agreement); by more aggressive or effective public health programs; or the continued drumbeat of state and local legislation to limit smoking in public places, the pace of smoking declines increased again last year, with NAAG reporting almost 5% fewer cigarettes shipped in 2013. We believe this trend is unlikely to diminish in coming years. Recent Obama administration budget proposals have called for raising the cigarette excise tax to fund pre-school education initiatives.Several tobacco bond authorities have been forced to tap their reserve funds in recent years to pay debt service, the most prominent example being Buckeye (OH), which will draw as much as $31.5 million to make the December 2014 interest payment. There are differing credit consideration for each issuer, but we urge a cautious approach to tobacco bond investing in general, since a variety of factors point towards further reductions in smoking in the United States, which will reduce the payment stream securing tobacco bonds. **Alan Schankel**

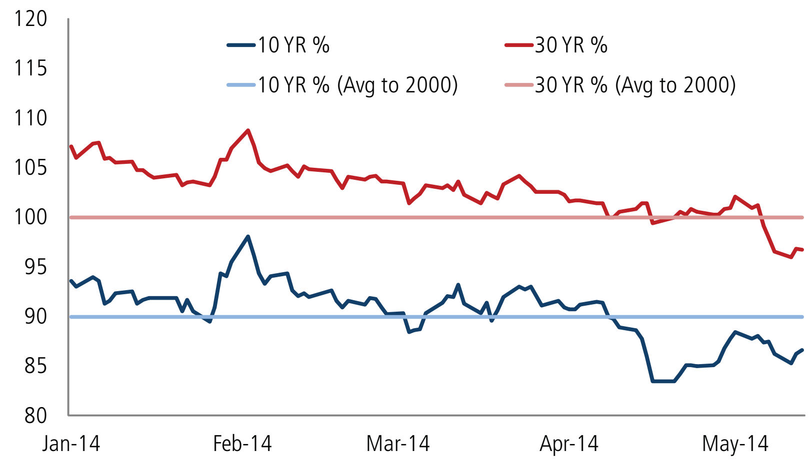
Aaa Municipal Benchmark Yields

Maturity	May 19th (as of)	W-O-W Change	M-O-M Change	Y-O-Y Change
1	0.15%	0.00%	0.00%	-0.04%
2	0.31%	-0.01%	-0.04%	0.03%
3	0.60%	-0.02%	-0.02%	0.17%
4	0.89%	-0.04%	-0.01%	0.27%
5	1.17%	-0.05%	0.02%	0.36%
6	1.42%	-0.08%	-0.05%	0.37%
7	1.68%	-0.08%	-0.06%	0.40%
8	1.88%	-0.08%	-0.07%	0.38%
9	2.06%	-0.07%	-0.07%	0.38%
10	2.17%	-0.09%	-0.10%	0.34%
11	2.28%	-0.10%	-0.12%	0.34%
12	2.39%	-0.11%	-0.13%	0.33%
13	2.48%	-0.13%	-0.16%	0.31%
14	2.57%	-0.13%	-0.18%	0.30%
15	2.66%	-0.12%	-0.18%	0.31%
16	2.73%	-0.12%	-0.19%	0.30%
17	2.80%	-0.12%	-0.20%	0.31%
18	2.87%	-0.12%	-0.22%	0.32%
19	2.94%	-0.12%	-0.22%	0.33%
20	3.00%	-0.12%	-0.22%	0.33%
21	3.05%	-0.13%	-0.22%	0.33%
22	3.09%	-0.14%	-0.23%	0.32%
23	3.13%	-0.14%	-0.24%	0.31%
24	3.16%	-0.14%	-0.25%	0.30%
25	3.19%	-0.13%	-0.25%	0.29%
26	3.21%	-0.13%	-0.25%	0.28%
27	3.23%	-0.11%	-0.25%	0.28%
28	3.24%	-0.10%	-0.26%	0.27%
29	3.25%	-0.10%	-0.26%	0.26%
30	3.25%	-0.10%	-0.27%	0.25%

Aaa Municipal Benchmark Yield Curve

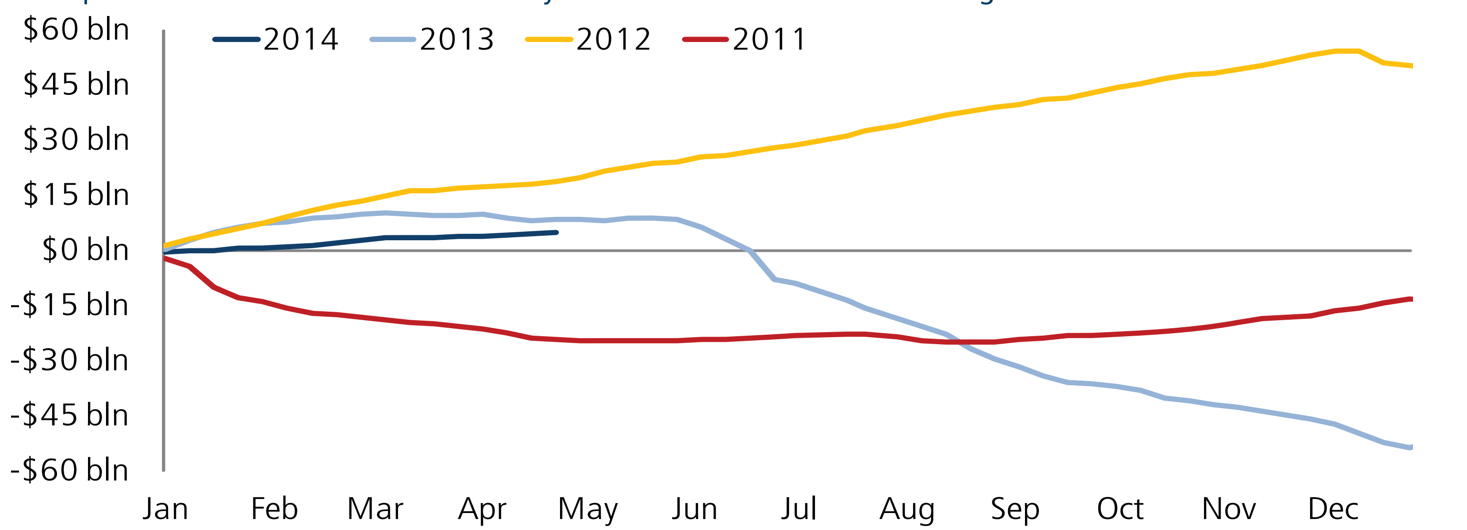


10 Year and 30 Year M/T Ratios



Source: Thomson Reuters and Janney FIS. Average goes back to 2000.

Municipal Fund Flows Have Made a Recovery in 2014 - Demand Has Been Strong



Source: Thomson Reuters, ICI Data and Janney FIS.

Select Recent Changes to Ratings & Outlooks (as of May 21, 2014)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Canisius College	NY	Downgraded to Baa3 from Baa2 by Moody's	14-May-2014	Baa3	Lower enrollments, strained finances
Yonkers (City of)	NY	Upgraded to A3 from Baa1 by Moody's	12-May-2014	A3	Improved financial management
Rhode Island (State of)	RI	Placed on watch for downgrade by S&P	12-May-2014	Aa2/AA/AA	Questions about 38 Studios debt
New Jersey (State of)	NJ	Downgraded to A1 from Aa3 by Moody's	13-May-2014	A1/A+/A+	Structural imbalances and pensions
Miami Dade Seaport Rev	FL	Downgraded to Baa1 from A3 by Moody's	5-May-2014	Baa1	Increasing leverage for cap program
New Jersey Turnpike Auth	NJ	Raised outlook to Positive from Stbl by Moody's	1-May-2014	A3	Capital plan: on time & in budget
New Jersey (State of)	NJ	Downgraded to A+ from AA- by Fitch	1-May-2014	A1/A+/A+	Structural imbalances and pensions
Kansas (State of)	KS	Downgraded to Aa2 from Aa1 by Moody's	30-Apr-2014	Aa2/AA+	Slow economic pace & structural imbalance
New Hampshire (State of)	NH	Lowered outlook to Negative from Stable by S&P	21-Apr-2014	Aa1/AA/AA	Thin finances, underfunded pension
Bucks County	PA	Lowered outlook to Negative from Stable	21-Apr-2014	Aaa/AA+	Four years of operating deficits, lower GF
Univ of Scranton	PA	Lowered outlook to Negative from Stable by S&P	10-Apr-2014	A	Falling enrollment and rising debt
Milwaukee (City of)	WI	Downgraded to Aa3 from Aa2 by Moody's	9-Apr-2014	Aa3/AA/AA	Weakened indices, falling tax base
New Jersey (State of)	NJ	Downgraded to A+ from AA- by S&P	9-Apr-2014	A1/A+/A+	Structural imbalances and pensions
Delaware St University	DE	Downgraded to A from A+ by S&P	7-Apr-2014	A	Reduced st funding, operating deficits
PA State High Ed Sys	PA	Lowered outlook to Negative from Stbl Moody's	7-Apr-2014	Aa3	Enrollment declines
Route 460 of VA Toll Rd	VA	Lowered outlook to Negative from Stable by S&P	2-Apr-2014	BBB-	Delay in construction permit
Philadelphia Airport	PA	Lowered outlook to Negative from Stable by S&P	2-Apr-2014	A+	Cited increased leverage
Georgetown University	DC	Lowered outlook to Stable from Pos by Moody's	28-Mar-2014	A3	Weak operating cash flow, leverage
Cincinnati (City of)	OH	Downgraded to AA- from AA+ by S&P	28-Mar-2014	AA2/AA-	Funding psn plan below requirement
Suffolk (County of)	NY	Downgraded by Moody's to A3 from A2	25-Mar-2014	A3/A+/A	Use of 1-time revs, also cites positives
Suffolk (County of)	NY	Raised outlook to Stable from Negative by Fitch	25-Mar-2014	A3/A+/A	Improving financial operations

Source: Moody's; S&P; Fitch and Janney FIS.

State and Other Select Issuer Ratings (May 21, 2014)

State	Moody's Rating	Moody's Outlook	Moody's Last	S&P Rating	S&P Outlook	S&P Last	Fitch Rating	Fitch Outlook	Fitch Last
Alabama	Aa1	Stable	4/16/2010	AA	Positive	11/27/2013	AA+	Stable	5/3/2010
Alaska	Aaa	Stable	11/22/2010	AAA	Stable	1/5/2012	AAA	Stable	1/7/2013
Arizona (*)	Aa3	Positive	11/26/2013	AA-	Stable	12/23/2011	NR	-	-
Arkansas	Aa1	Stable	4/16/2010	AA	Stable	1/10/2003	NR	-	-
California	A1	Stable	4/16/2010	A	Positive	1/14/2014	A	Stable	8/5/2013
Colorado (*)	Aa1	Stable	4/16/2010	AA	Stable	7/10/2007	NR	-	-
Connecticut	Aa3	Stable	1/20/2012	AA	Stable	9/26/2003	AA	Negative	7/2/2013
Delaware	Aaa	Stable	4/30/2010	AAA	Stable	2/22/2000	AAA	Stable	4/13/2006
Dist. of Columbia	Aa2	Stable	8/2/2013	AA-	Stable	3/21/2013	AA-	Stable	4/5/2010
Florida	Aa1	Stable	4/16/2010	AAA	Stable	7/12/2011	AAA	Stable	8/23/2013
Georgia	Aaa	Stable	4/16/2010	AAA	Stable	7/29/1997	AAA	Stable	4/13/2006
Hawaii	Aa2	Stable	5/17/2011	AA	Positive	10/10/2013	AA	Stable	6/15/2011
Idaho (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/30/2011	AA	Stable	4/5/2010
Illinois	A3	Negative	6/6/2013	A-	Developing	12/10/2013	A-	Negative	6/3/2013
Indiana (*)	Aaa	Stable	4/16/2010	AAA	Stable	7/18/2008	AA+	Stable	4/5/2010
Iowa (*)	Aaa	Stable	4/16/2010	AAA	Stable	9/11/2008	AAA	Stable	4/5/2010
Kansas (*)	Aa2	Stable	4/30/2014	AA+	Stable	5/20/2005	None	None	None
Kentucky (*)	Aa2	Negative	3/30/2011	AA-	Negative	1/31/2013	A+	Stable	11/8/2012
Louisiana	Aa2	Stable	4/16/2010	AA	Stable	5/4/2011	AA	Stable	4/5/2010
Maine	Aa2	Negative	5/17/2012	AA	Stable	5/24/2012	AA	Stable	1/23/2013
Maryland	Aaa	Stable	7/19/2013	AAA	Stable	5/7/1992	AAA	Stable	4/13/2006
Massachusetts	Aa1	Stable	4/16/2010	AA+	Stable	9/16/2011	AA+	Stable	4/5/2010
Michigan	Aa2	Positive	3/28/2013	AA-	Positive	4/2/2013	AA	Stable	4/2/2013
Minnesota	Aa1	Stable	7/30/2013	AA+	Stable	9/29/2011	AA+	Stable	7/7/2011
Mississippi	Aa2	Stable	4/16/2010	AA	Stable	11/30/2005	AA+	Negative	11/15/2013
Missouri	Aaa	Stable	7/19/2013	AAA	Stable	2/16/1994	AAA	Stable	4/13/2006
Montana	Aa1	Stable	4/16/2010	AA	Stable	5/5/2008	AA+	Stable	4/5/2010
Nebraska (*)	Aa2	Stable	4/16/2010	AAA	Stable	5/5/2011	NR	-	-
Nevada	Aa2	Stable	3/24/2011	AA	Stable	3/10/2011	AA+	Stable	4/5/2010
New Hampshire	Aa1	Stable	4/16/2010	AA	Negative	4/21/2014	AA+	Stable	4/5/2010
New Jersey	A1	Negative	5/13/2014	A+	Stable	4/9/2014	A+	Negative	5/1/2014
New Mexico	Aaa	Stable	7/19/2013	AA+	Stable	2/5/1999	NR	-	-
New York	Aa2	Positive	8/22/2013	AA	Positive	8/27/2012	AA	Positive	5/31/2011
North Carolina	Aaa	Stable	1/12/2007	AAA	Stable	6/25/1992	AAA	Stable	4/13/2006
North Dakota (*)	Aa1	Stable	4/16/2010	AAA	Stable	12/13/2013	NR	-	-
Ohio	Aa1	Stable	3/16/2012	AA+	Stable	7/19/2011	AA+	Stable	4/11/2011
Oklahoma	Aa2	Stable	4/16/2010	AA+	Stable	9/5/2008	AA+	Stable	4/5/2010
Oregon	Aa1	Stable	4/16/2010	AA+	Stable	3/10/2011	AA+	Stable	4/5/2010
Pennsylvania	Aa2	Stable	7/16/2012	AA	Negative	7/19/2012	AA	Negative	7/16/2013
Puerto Rico	Ba2	Negative	2/7/2014	BB+	Negative	2/4/2014	BB	Negative	2/11/2014
Rhode Island	Aa2	Negative	7/1/2013	AA	Watch Dwn	5/12/2014	AA	Stable	7/18/2011
South Carolina	Aaa	Stable	12/7/2011	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
South Dakota (*)	Aa2	Stable	5/27/2010	AA+	Stable	3/25/2011	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	12/7/2011	AA+	Stable	11/5/2013	AAA	Stable	4/5/2010
Texas	Aaa	Stable	4/16/2010	AAA	Stable	9/27/2013	AAA	Stable	4/5/2010
Utah	Aaa	Stable	4/16/2010	AAA	Stable	6/7/1991	AAA	Stable	4/13/2006
Vermont	Aaa	Stable	4/16/2010	AA+	Positive	9/17/2012	AAA	Stable	4/5/2010
Virginia	Aaa	Stable	7/19/2013	AAA	Stable	11/11/1992	AAA	Stable	4/13/2006
Washington	Aa1	Stable	7/19/2013	AA+	Stable	11/12/2007	AA+	Stable	7/19/2013
West Virginia	Aa1	Stable	7/9/2010	AA	Stable	8/21/2009	AA+	Stable	7/8/2011
Wisconsin	Aa2	Stable	4/16/2010	AA	Stable	8/15/2008	AA	Stable	4/5/2010
Wyoming (*)	NR	-	-	AAA	Stable	5/3/2011	NR	-	-

Source: Moody's; S&P; Fitch and Janney FIS. (*) Denotes a Lease or Issuer Credit Rating.

Municipal Credit Rating Scale and Definitions

	Rating Agency			
	Moody's	S&P	Fitch	Definition
Investment Grade	Aaa	AAA	AAA	Exceptionally strong credit quality and minimal default risk.
	Aa1	AA+	AA+	Upper medium grade and subject to low credit risk.
	Aa2	AA	AA	Upper medium grade and subject to low credit risk.
	Aa3	AA-	AA-	Upper medium grade and subject to low credit risk.
	A1	A+	A+	Strong credit quality and subject to low default risk.
	A2	A	A	Strong credit quality and subject to low default risk.
	A3	A-	A-	Strong credit quality and subject to low default risk.
	Baa1	BBB+	BBB+	Subject to moderate risk and possess some speculative characteristics.
	Baa2	BBB	BBB	Subject to moderate risk and possess some speculative characteristics.
	Baa3	BBB-	BBB-	Subject to moderate risk and possess some speculative characteristics.
Sub-Investment Grade	Ba1	BB+	BB+	Weak credit quality with speculative elements and substantial credit risk.
	Ba2	BB	BB	Weak credit quality with speculative elements and substantial credit risk.
	Ba3	BB-	BB-	Weak credit quality with speculative elements and substantial credit risk.
	B1	B+	B+	Very weak credit quality, very speculative with high credit risk.
	B2	B	B	Very weak credit quality, very speculative with high credit risk.
	B3	B-	B-	Very weak credit quality, very speculative with high credit risk.
	Caa1	CCC+	CCC+	Extremely weak credit quality and subject to very high credit risk.
	Caa2	CCC	CCC	Extremely weak credit quality and subject to very high credit risk.
	Caa3	CCC-	CCC-	Extremely weak credit quality and subject to very high credit risk.
	Ca	CC	CC+	Highly speculative and are in or near default with some prospect for recovery.
		C	CC	Lowest class of rated bonds and may be in default with little prospect for recovery.
			CC-	Lowest class of rated bonds and may be in default with little prospect for recovery.
	D	D	DDD	Issuer is in default and/or has failed to make a payment.

Source: Moody's; S&P; Fitch and Janney FIS.

Janney CAPITAL MARKETS

Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
Tobacco Bond Update	May 19, 2014	Weekly	Trends in the tobacco sector remain negative
Municipal Default Update	May 12, 2014	Weekly	Municipal defaults remain low compared to other sectors
Atlanta Hartsfield Jackson Int Airport	May 12, 2014	Note	Key takeaways from our closer look at ATL
Municipal Airport Sector	May 9, 2014	Note	Headwinds have receded in Airport sector
New Jersey Downgraded	May 5, 2014	Weekly	NJ spreads have remained steady since the downgrade
Municipal Market Technical Review	April 28, 2014	Weekly	M/T Ratios have been declining
Tax Day Reminder of Muni Value	April 15, 2014	Note	Let municipal help alleviate the pain of higher taxes
U.S. State Fiscal Health Update	April 11, 2014	Note	A new spending paradigm for state governments
The Bond Insurers- Now There are Three	April 9, 2014	Note	Upgrades for Assured and National
Chp 9 Bankruptcies Remain Low	March 28, 2014	Monthly	Review Chp 9 bankruptcies, RI willingness
Heavy New Issue Week Comes and Goes	March 17, 2014	Weekly	Heavy calendar and Puerto Rico issuance
Size of Municipal Market Shrinks Again	March 10, 2014	Weekly	Fed data indicates amt. bonds is gradually diminishing
Our Annual Municipal Sector Credit Reviews	February 28, 2014	Monthly	Still have "Cautious" outlooks on 6 (of 11) sectors
Municipals: Positive but Tepid Demand	February 24, 2014	Weekly	Modest mutual find inflows
Moody's and Fitch Downgrade - Puerto Rico	February 11, 2014	Note	Moody's & Fitch downgraded GO below investment grade
Municipals: Puerto Rico Downgrades	February 10, 2014	Weekly	A Review of recent downgrades related to Puerto Rico
S&P Downgrade - Puerto Rico	February 6, 2014	Note	S&P downgraded GO below investment grade
Municipals: Low January New Issue Volume	February 3, 2014	Weekly	Volume is lower but new money issuance is rising
Lower Yields Breeds Duration Adjustment	January 27, 2014	Weekly	Opportunity to manage duration by realigning portfolios
PA Intercept Program for School Districts	January 22, 2014	Note	In-depth Look at the mechanisms and Moody's changes
Municipals: A Good Start to 2014	January 13, 2014	Weekly	Munis enjoyed a strong start for the year amid light supply
Janney Outlook for Local Governments	January 7, 2014	Note	Outlook still "Cautious"
U.S. State Fiscal Health Update	January 6, 2014	Note	"Stable" Outlook for U.S. States- full steam ahead
Municipals: Fewer New Munis	January 6, 2014	Weekly	Borrowing for projects remains below pre-recession pace
A Unique Local Govt Refunding Strategy	December 19, 2013	Note	IL school districts funding escrows with IL GOs
The Municipal Market in 2014	November 22, 2013	Monthly	We highlight 5 events/issues we expect to be big
Municipals: Jefferson Cty, AL and Puerto Rico	November 25, 2013	Weekly	Questionable debt structure and PR econ indicators
Municipals: Rating Action Divergence	November 18, 2013	Weekly	Difficult to rationalize upgrades by S&P
Connecticut: A Review of State Issuers	November 8, 2013	Note	CT faced significant economic challenges
Municipals: Puerto Rico Update	November 4, 2013	Weekly	Disclosure has improved and yields narrowed
Municipals: Old Normal Returns	October 28, 2013	Weekly	Market stabilizing, S&P's optimistic view
Municipals: Back to Normal?	October 21, 2013	Weekly	Growing primary market calendar post-shutdown
Municipals: Regional Economic Shutdown	October 7, 2013	Weekly	State & regions just around DC to be most affected
Puerto Rico: Island Visit and COFINA	October 4, 2013	Note	Sales & use tax revs growing despite weak economy
U.S. State Fiscal Health Update	October 3, 2013	Note	Status of U.S. States largely secure, laggards remain
Municipals: Washington Crunch	September 30, 2013	Weekly	Commentary on outflows and DC interference
Debt Ceiling Debate Part II: Treat Uncertainty	September 27, 2013	Monthly	More uncertainty, but will be less impactful than in 2011
M/T Ratios Continue to Retreat	September 23, 2013	Weekly	Sparse supply helps municipals stabilize
New Issuance & Outstanding Debt Declining	September 16, 2013	Weekly	Municipal issuers have reduced new money borrowing
Puerto Rico Accomplishments and Challenges	September 13, 2013	Note	Fiscally better but headwinds remain
Taper, a New Fed Chief and War- Oh My!	September 11, 2013	Monthly	Advice: municipal investors stay composed
Receiver Unveils "Harrisburg Strong" Plan	August 27, 2013	Note	A guide for handling municipal distress
A Bond Insurance Revival	August 26, 2013	Weekly	Bond insurance remains an important part of market
Muni Tax Considerations-Market Discount	August 22, 2013	Note	Investors should consider market discount ramifications
Trials and Tribulations- Lehman Like Move	August 21, 2013	Monthly	A new period of volatility for investors has begun
Tobacco Bonds	August 19, 2013	Weekly	Smoking declines may pressure prices
Motown's Bankruptcy Blues	August 9, 2013	Note	Bankruptcy process will be contentious and protracted
Creative Financings- Allentown, PA	August 5, 2013	Weekly	Structure can serve to reduce local stress
Detroit files for Chapter 9 Protection	July 19, 2013	Note	Action not representative of credit conditions
Municipal: Technical Notes	July 15, 2013	Weekly	A focus on fund flows
U.S. State Fiscal Health Update	July 1, 2013	Note	Tremendous amount of budget pressure for some states
Opportunities in Munis	June 25, 2013	Note	Good entry point for investors
Municipal: Looking Back and Ahead	June 24, 2013	Weekly	A focus on fund flows, compares 2011, 2012 & 2013
A Look at Several Municipal Credit Topics	June 20, 2013	Monthly	Local governments on the periphery are examined
Puerto Rico Hgwy Trans- Bumpy Road	June 13, 2013	Note	Solvency requires additional revenues
Puerto Rico- The Clock is Ticking	June 3, 2013	Note	Need political action to avert downgrade

Source: Janney Fixed Income Strategy.

Analyst Certification

We, Tom Kozlik and Alan Schankel, the Primarily Responsible Analysts for this report, hereby certify that all of the views expressed in this report accurately reflect our personal views about any and all of the subject sectors, industries, securities, and issuers. No part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Definition of Outlooks

Positive: Janney FIS believes there are apparent factors which point towards improving issuer or sector credit quality which may result in potential credit ratings upgrades

Stable: Janney FIS believes there are factors which point towards stable issuer or sector credit quality which are unlikely to result in either potential credit ratings upgrades or downgrades.

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Marketweight: Janney FIS expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return

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Asset Classes: Janney FIS ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclay's U.S. Aggregate Bond Market Index" as a benchmark.

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Agencies: Janney FIS ratings employ the "Barclay's U.S. Agency Index" as a benchmark.

Mortgages: Janney FIS ratings employ the "Barclay's U.S. MBS Index" as a benchmark.

Investment Grade Credit: Janney FIS ratings employ the "Barclay's U.S. Credit Index" as a benchmark.

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Municipals: Janney FIS ratings employ the "Barclay's Municipal Bond Index" as a benchmark.

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