Municipal Market *UPDATE*

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- **Municipal Volume Declines**
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Municipal Volume Declines

June marked first time in the past 10 months that municipal volume fell below its year-over-year level as refundings began to slow down. In June, \$34.39 billion of long-term municipal bonds were issued, compared to \$35.79 billion in June 2014, according to Thomson Reuters data. Although this is the first time in ten months that the aggregate par amount of municipal issues did not exceed 2014 numbers, there were actually more bonds issued with 1,246 issues brought to market in June compared to 1,224 in the same period 2014. Overall, issuance is up 28.7% in the first half of 2014 compared to 2015.

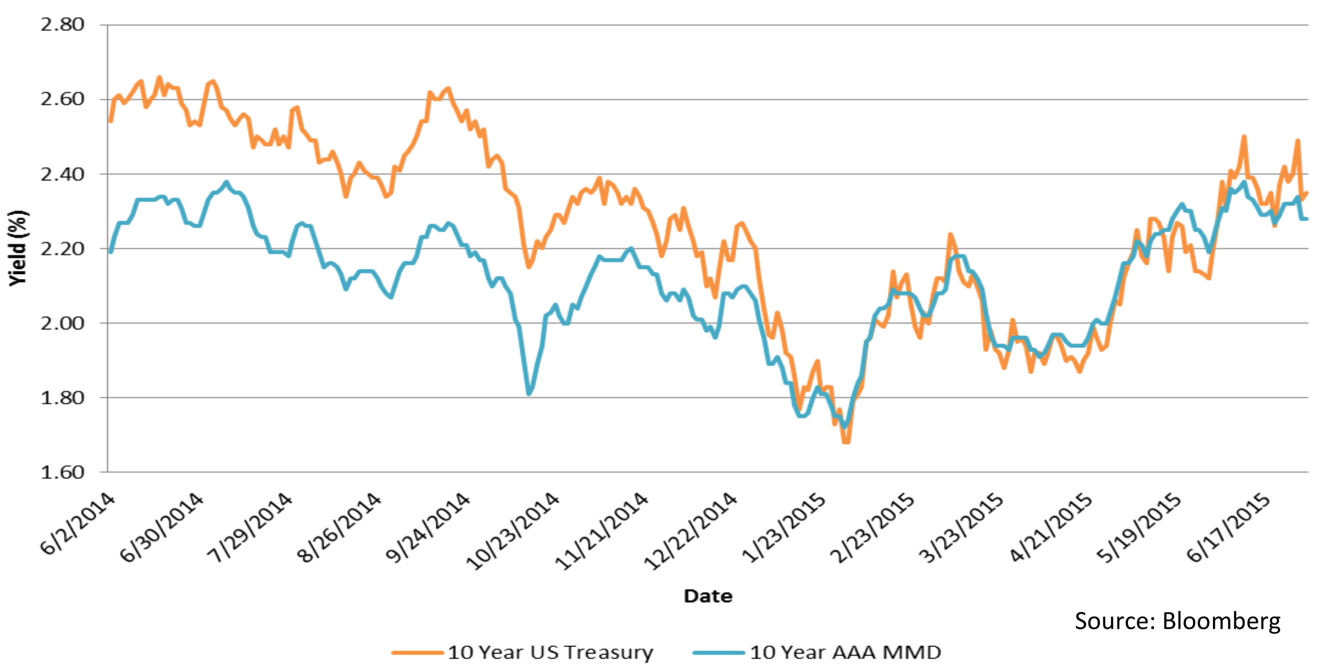
The Municipal Market Data ("MMD") 'AAA' Muni Market 10 year yield ended June at 2.28%, an increase of 9 bps from 2.19% at the end of May. The 30 year yield also increased, ending June at 3.28%, an 12 bps rise from the end of May.

The 10-year US Treasury yield ended June at 2.35%, up 23 bps from 2.12% at the end of the prior month. The 30-year Treasury yield also increased, ending June at 3.11%, up from 2.88% at the end of May. As of June 30th, the ratios of 'AAA' General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.31 / 0.28	110.71%
5-Year	1.38 / 1.63	84.66%
10-Year	2.28 / 2.35	97.02%
30-Year	3.28 / 3.11	105.47%

Sources: The Bond Buyer, Bloomberg, US Department of Treasury, US Federal Reserve

Figure 1 - 10 Year AAA MMD and 10 Year US Treasury



Source: Bloomberg

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Variable Rate Market Update

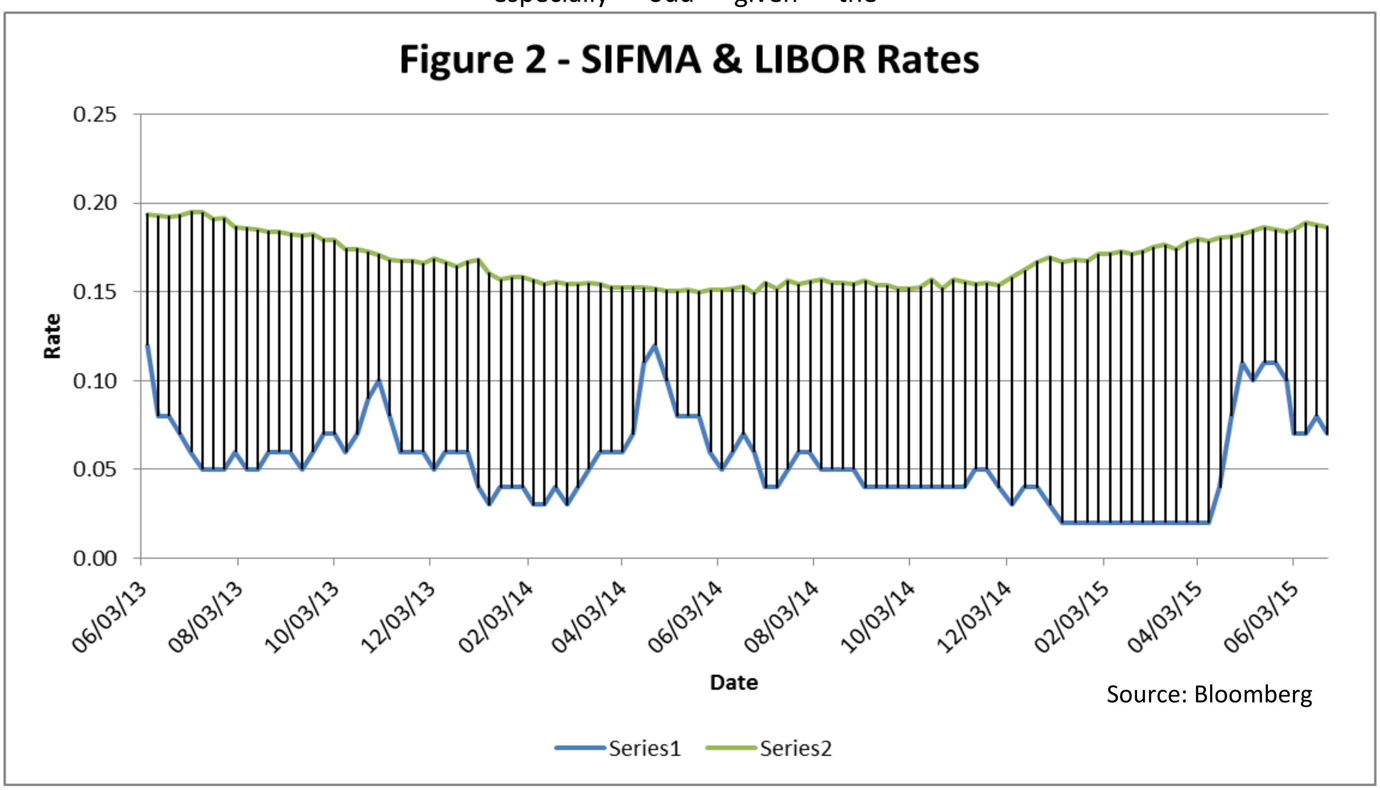
The SIFMA Municipal Swap Index, an average of high-grade, tax-exempt, variable rate bonds, ended June at .05%, a five basis point decrease from the end of May. The 30-day LIBOR increased in June, ending the month at .1850%, up from .1840% at the end of May. Please refer to Figure 2 below for historical SIFMA and LIBOR rates.

2015 First Half in Review

A quick synopsis of what has happened with issuance, rates, and credit for the first 6 months of 2015.

#1 Bond Issuance Picked Up

If one were to look only at the surface of the muni bond market over the last seven years or so, it would have been somewhat puzzling to see a consistent decline in the amount of municipal bonds issued while interest rates continued to fall. It would be especially odd given the amount of airtime and column inches devoted to documenting the United States' "crumbling infrastructure" and the clear and present danger that it's continued to neglect dangers present to the country's economy. It's becoming apparent that the states and municipalities have hard-wired two lessons from the recession; think twice before issuing debt and let the Feds worry about fixing the infrastructure. According to Moody's, the amount of tax supported state level debt outstanding declined



in 2014 for the first time in 28 years. The first six months of 2015, however, has shown that that may be changing.

From the same period a year ago, municipal bonds issued so far this year is up a very healthy 40.2%. A near 4% dip in June was the only month in 2015 to not witness a large year over year increase. February issuance doubled from the year prior and January, March and April were all up close to or more than 50%. The fact that refundings were up 86% and the decline came in June when rates started to become unsettled and inch up suggests that the 2015 rally is very reliant on low rates.

#2 Rates Became Unsettled, Drifted Up

Placed in historical context, we don't need very advanced math to show that interest rates have been low for a long time in both the U.S. and the rest of the developed world. There have been drifts up and down, but for the most part, issuers have enjoyed (and investors have endured) one of the longest periods of near zero interest rates in modern history. Although rates on the 20 and 30 year AAA MMD were up 42 and 45 basis points for the first half, respectively, it was not so much the increase in rates as the journey that concerned some. With the Federal Reserve seemingly going to greater and greater lengths to convince everyone that rates are likely to be increased later this year, both Treasuries and municipal bonds began to become more volatile in the 2nd quarter. Dramatic one day moves were interspersed with days of calm as a number of different credit issues took the stage late in June. Volatility doesn't necessarily mean long term increases however. Depending on how unsettled the euro becomes as the Greek tragedy plays out, a flight to safety (i.e. U.S. dollar denominated assets, particularly Treasuries) could again drive U.S. interest rates down and simultaneously force the Fed to stand pat.

#3 Puerto Rico, Again

If the first step to solving a problem is indeed admitting that you have one, Puerto Rico may be ready to start making some progress. Puerto Rico Governor Alejandro Padilla stated late in June that the island's debt, as currently structured, simply could not be paid back. Pretense of normality finally set aside, Puerto Rico can begin to negotiate directly with its creditors in earnest, although that is unlikely to deliver much relief soon because as of now, the island has no Chapter 9 bankruptcy to threaten them with. That is, in a real sense, the larger question about Puerto Rico's situation; will Congress amend Chapter 9 to allow territories and states to file for protection? There are several U.S. states that, barring some seemingly impossible to achieve legal changes to their current pension laws, are facing a pile of debt every bit as unpayable down the road to them as that which is facing Greece and Puerto Rico right now.

Sources: Moody's Thomson-Reuters, Federal Reserve Bank of St. Louis, and The Bond Buyer

June 2015 Selected Bond Issues								
General Obligation and Essential Service Revenue								
Sale Date	**Par ($ mil)**	**Issuer**	**Project**	**Ratings**	**Final Maturity**	**Yield**	**Spread to MMD**	**Notes**
6/8/2015	$43.62	Monmouth County, NJ	General Obligation Refunding Bonds	Aaa/AAA/AAA	1/15/2023	2.360%	28	
5/11/2015	$68.19	Franklin County, OH	General Obligation Refunding Bonds	Aaa/AAA/	12/1/2031	3.070%	21	
5/18/2015	$17.31	Bayonne NJ	General Obligation Refunding Bonds	A2/AA/	8/1/2038	4.300%	117	AGM Insured
Education Sector								
Sale Date	**Par ($ mil)**	**Issuer**	**Project**	**Ratings**	**Final Maturity**	**Yield**	**Spread to MMD**	**Notes**
6/1/2015	$59.08	Ohio State Higher Educational Facilities Commission	Univ. & College Imps. (Denison University Proj)	Aa3/AA/	11/1/2034	3.520%	60	
6/22/2015	$13.67	Missouri State Western University	Revenue Refunding Bonds	/AA/	10/1/2035	3.940%	92	AGM Insured
6/15/2015	$73.77	New Jersey State Educational Facilities Authority	Univ. & College Imps. (Montclair State University)	A1/ /AA-	7/1/2036	3.670%	60	
Water/Utility Sector								
Sale Date	**Par ($ mil)**	**Issuer**	**Project**	**Ratings**	**Final Maturity**	**Yield**	**Spread to MMD**	**Notes**
5/18/2015	$51.07	Indio CA Water Authority	Water Revenue Bonds	/AA/	4/1/2041	3.960%	76	BAM Insured
5/4/2015	$18.23	Saxonburg PA Area Authority	Sewer Revenue Refunding Bonds	/AA/	3/1/2035	3.750%	83	
5/11/2015	$50.63	Asheville, NC	Water System Revenue Green Bonds	Aa2/AA/	8/1/2032	3.570%	71	
Healthcare Sector								
Sale Date	**Par ($ mil)**	**Issuer**	**Project**	**Ratings**	**Final Maturity**	**Yield**	**Spread to MMD**	**Notes**
6/8/2015	$5.32	Colorado State Health Facilities Authority	Revenue Refunding Bonds (Parkview Medical Center)	A3/ /	9/1/2025	3.410%	106	

Source: Bloomberg