

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

January 6, 2014



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State Fiscal Health Update - January 2014

"Stable" Janney U.S. State Credit Outlook - Full Steam Ahead in 2014

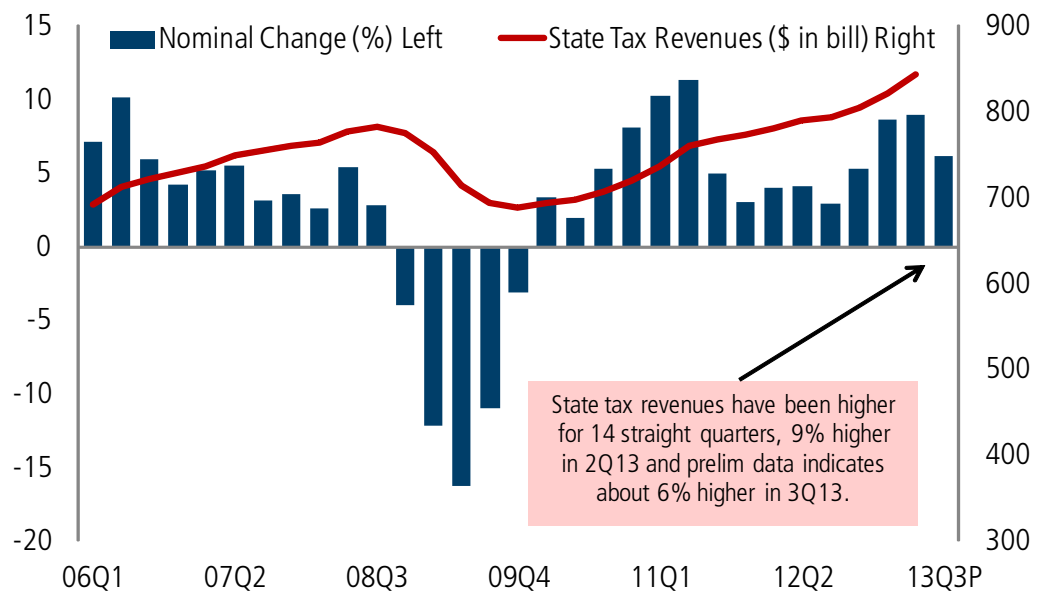
- The fiscal status of U.S. State credits continued to mostly strengthen in 2013.
- 2014 looks promising too, assuming economic growth continues and the economy cooperates.
- Select challenges such as structural imbalances & lower than optimal reserve fund balances remain.
- A solid "pro" for state credits is that they have several levers at their disposal they can use to reset the sails of their fiscal ships if necessary. Most notably is their sovereign ability to raise revenues and cut spending.
- A notable example occurred in December 2013, when the state of Illinois enacted legislation expected to reduce the state's unfunded pension liability by about 20%. Moody's put Illinois pension liability at approximately \$173 billion as of June 2013, the largest of any U.S. state.
- State tax revenues were up 9% year over year in 2Q2013 compared with the same quarter in 2012. Preliminary data for the 3Q13 shows revenues are expected to be about 6% higher YoY. Overall, Census Bureau state tax revenue data has been on an upward trend that is rising at a satisfactory pace. Mortgage delinquency and unemployment rates have mostly fallen too.
- The Janney Credit Outlook for U.S. States remains "Stable". Moody's raised its outlook to "Stable" from "Negative" in August 2013.
- 30 of 50 Moody's state ratings are in the Aaa and Aa1 (the two highest) rating categories. The median state rating is Aa1 and ratings range from Aaa to A3 (lowest at A3 is IL).
- Recent state level rating changes include: HI outlook raised by S&P, NJ's outlook lowered by Moody's, Puerto Rico's Baa3 put on "Review for Downgrade" by Moody's and its BBB- on "Rating Watch Negative" by Fitch, and the outlook for TN was lowered by S&P.

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U.S. State Tax Revenues Continue to Climb Higher



Source: Rockefeller Institute, US Census Bureau, and Janney FIS.

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Janney State Fiscal Health Indicators

State	Bond Ratings (*a lease or ICR)	Spread to 10Y MMD Oct 1, 13	Spread to 10Y MMD Jan 2, 14	Quarterly Tax Revenue 2Q13 (YoY) Change	State Balances % of Expenditures (FY14)	Pension Funded Ratio (2012)	"Seriously Delinquent" Morts. 3Q13	Unemploy. Rate Nov 2013
Total/Average		21	20	9.0%	8.2%	72.4%	5.7%	7.0%
Alabama	Aa1/AA/AA+	13	20	5.2%	4.3%	66.2%	5.0%	6.2%
Alaska	Aaa/AAA/AAA	3	4	-36.4%	231.8%	59.2%	2.1%	6.5%
Arizona*	Aa3/AA-/NR	35	32	7.8%	10.3%	74.3%	2.9%	7.8%
Arkansas	Aa1/AA/NR	12	10	6.0%	0.0%	71.4%	5.0%	7.5%
California	A1/A/A	50	56	21.2%	1.8%	76.0%	3.6%	8.5%
Colorado*	Aa1/AA/NR	22	22	6.9%	6.9%	59.2%	2.6%	6.5%
Connecticut	Aa3/AA/AA	33	35	10.7%	1.6%	49.1%	7.3%	7.6%
Delaware	Aaa/AAA/AAA	0	0	19.2%	14.7%	88.3%	6.5%	6.5%
Florida	Aa1/AAA/AAA	17	18	4.5%	10.3%	86.4%	12.6%	6.4%
Georgia	Aaa/AAA/AAA	3	0	9.8%	NA	81.9%	5.3%	7.7%
Hawaii	Aa2/AA/AA	20	22	8.0%	12.2%	59.2%	5.8%	4.4%
Idaho*	Aa1/AA+/AA	26	24	8.5%	3.6%	84.4%	3.5%	6.1%
Illinois	A3/A-/A-	175	150	11.1%	0.5%	40.4%	7.7%	8.7%
Indiana*	Aaa/AAA/AA+	18	18	3.2%	10.1%	58.4%	6.1%	7.3%
Iowa*	Aaa/AAA/AAA	12	12	7.8%	21.2%	79.5%	3.7%	4.4%
Kansas*	Aa1/AA+/NR	18	18	-2.0%	8.5%	56.4%	3.9%	5.1%
Kentucky*	Aa2/AA-/A+	22	23	2.7%	1.0%	46.8%	5.2%	8.2%
Louisiana	Aa2/AA/AA	20	22	1.6%	5.3%	55.5%	5.3%	6.3%
Maine	Aa2/AA/AA	12	14	7.2%	1.8%	77.2%	7.8%	6.4%
Maryland	Aaa/AAA/AAA	0	0	9.7%	6.5%	64.4%	7.5%	6.4%
Massachusetts	Aa1/AA+/AA+	20	22	6.7%	4.3%	66.4%	5.8%	7.1%
Michigan	Aa2/AA-/AA	41	38	11.7%	6.1%	66.4%	4.3%	8.8%
Minnesota	Aa1/AA+/AA+	6	7	7.5%	9.7%	75.0%	2.8%	4.6%
Mississippi	Aa2/AA/AA+	20	23	6.3%	NA	58.0%	6.2%	8.3%
Missouri	Aaa/AAA/AAA	1	1	-0.7%	3.8%	76.9%	3.8%	6.1%
Montana	Aa1/AA/AA+	22	22	11.5%	17.9%	63.9%	2.2%	5.2%
Nebraska*	Aa2/AAA/NR	28	21	18.6%	24.4%	78.5%	2.8%	3.7%
Nevada	Aa2/AA/AA+	36	34	6.1%	6.3%	71.0%	8.7%	9.0%
New Hampshire	Aa1/AA/AA+	14	14	4.0%	2.7%	56.2%	3.8%	5.1%
New Jersey	Aa3/AA-/AA-	28	29	10.2%	0.9%	65.4%	12.1%	7.8%
New Mexico	Aaa/AA+/NR	15	12	-2.3%	7.6%	63.0%	5.3%	6.4%
New York	Aa2/AA/AA	13	10	13.5%	2.8%	90.5%	9.3%	7.4%
North Carolina	Aaa/AAA/AAA	2	0	8.1%	4.7%	93.9%	4.4%	7.4%
North Dakota*	Aa1/AA+/NR	23	15	-12.5%	38.4%	66.3%	1.4%	2.6%
Ohio	Aa1/AA+/AA+	21	24	10.7%	5.6%	77.2%	6.4%	7.4%
Oklahoma	Aa2/AA+/AA+	22	22	3.5%	NA	65.3%	5.1%	5.4%
Oregon	Aa1/AA+/AA+	12	10	7.6%	5.3%	82.0%	5.1%	7.3%
Pennsylvania	Aa2/AA/AA	22	29	3.0%	0.0%	63.9%	6.1%	7.3%
Rhode Island	Aa2/AA/AA	40	45	3.1%	5.2%	58.2%	6.8%	9.0%
South Carolina	Aaa/AA+/AAA	3	3	6.8%	13.7%	65.4%	5.4%	7.1%
South Dakota*	Aa2/AA+/AA	34	26	11.7%	12.2%	92.6%	2.1%	3.6%
Tennessee	Aaa/AA+/AAA	5	5	4.3%	3.8%	92.1%	4.8%	8.1%
Texas	Aaa/AAA/AAA	5	4	6.0%	17.8%	82.0%	3.6%	6.1%
Utah	Aaa/AAA/AAA	0	0	15.6%	5.2%	76.5%	3.6%	4.3%
Vermont	Aaa/AA+/AAA	6	6	5.0%	4.9%	68.4%	5.1%	4.4%
Virginia	Aaa/AAA/AAA	0	0	7.5%	3.9%	69.5%	3.2%	5.4%
Washington	Aa1/AA+/AA+	23	23	4.4%	2.6%	98.1%	4.9%	6.8%
West Virginia	Aa1/AA/AA+	24	24	-1.2%	33.0%	64.0%	3.5%	6.1%
Wisconsin	Aa2/AA/AA	22	23	3.8%	3.7%	99.9%	4.4%	6.3%
Wyoming*	NR/AAA/NR	10	10	4.3%	53.1%	79.6%	1.9%	4.4%

Sources: MMD spreads are per Thomson Reuters; quarterly (3Q13) change (YOY) in State tax revenue from Rockefeller Institute; State balances as % of Expend. from NASBO; pension funded ratio per Morningstar (FY2012); 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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