Municipal Market UPDATE

StermBrothers&Co.
INVESTMENT BANKING SINCE 1917

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- **Municipal Volume Rises for First Time in Eight Months**
- **Variable Rate Market Update**
- **Moody's Upgrade / Downgrade Report for 1st Quarter**
- **S&P Reflects on Lessons Learned from Recent Chapter 9's**

Municipal Volume Rises for First Time in Eight Months

For the first time since September, municipal issuance increased in May when compared to the same period in the previous year. Overall, volume was up 7.5% from where it was in May 2015. New-money issuance increased to $16.71 billion, a 14.8% year-over-year increase. Unlike April, refundings influenced the overall increase in May, increasing almost 16% year-over-year, to $15.22 billion.

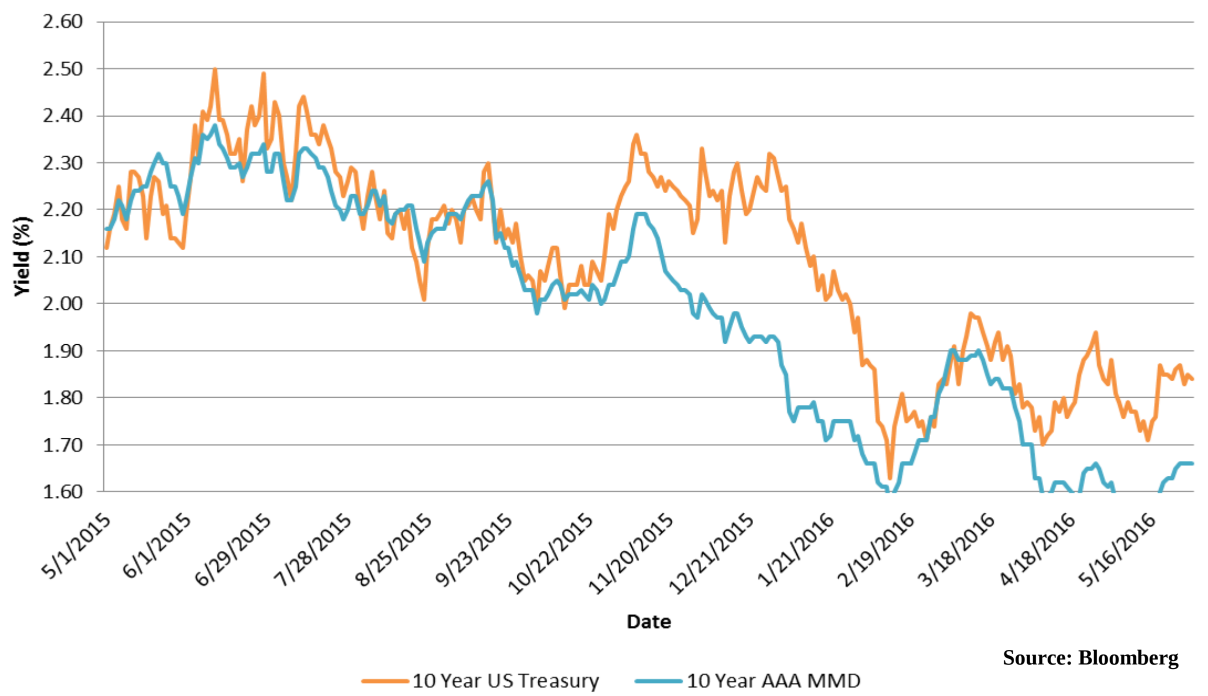
The Municipal Market Data ("MMD") 'AAA' Muni Market 10-year yield ended May at 1.66% - 5 basis points ("bps") above its level at the end of April. On the other hand, the 30-year yield decreased, ending April at 2.45%, 13 bps lower than 2.58% at the end of May.

The 10-year US Treasury yield ended May at 1.84%, 1 bps higher than 1.83% at the end of April. The 30-year Treasury yield dropped 2 bps, ending May at 2.64%. As of May 31st, the ratios of 'AAA' General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.58 / 0.68	85.29%
5-Year	1.09 / 1.37	79.56%
10-Year	1.66 / 1.84	90.22%
30-Year	2.45 / 2.64	92.80%

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

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



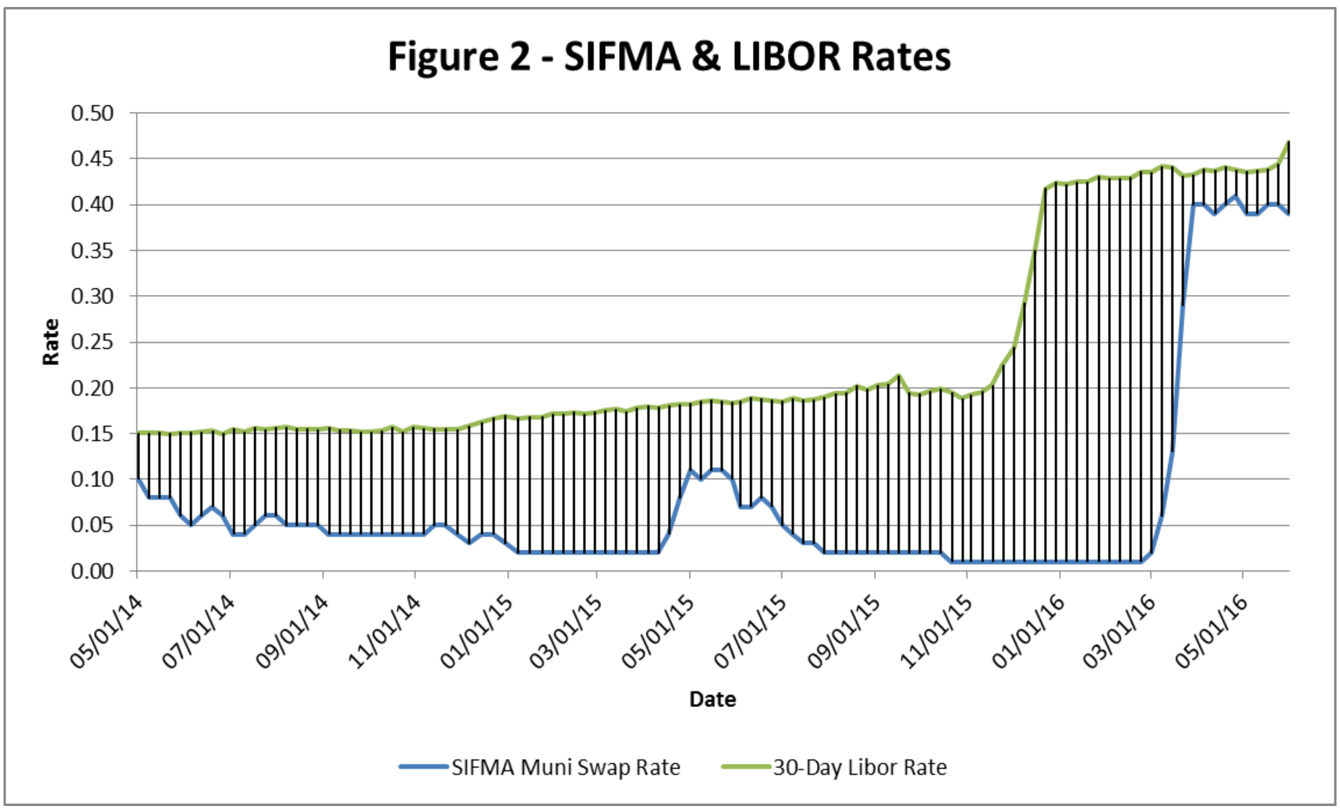
Source: Bloomberg

Variable Rate Market Update

The SIFMA Municipal Swap Index, an average of high-grade, tax-exempt, variable rate bonds, ended the month at .39%, down two basis points from the level at which it ended in April. The 30-day LIBOR increased in May, ending the month at .4689%, up from .4377% at the end of April. Please refer to Figure 2 for historical SIFMA and LIBOR rates.

Moody's Upgrade/Downgrade Report for 1st Quarter

Moody's issued its quarterly upgrade/downgrade report for the first quarter of 2016 and upgradesedgedout downgrades for the fourth time in five quarters, indicating that although improvement remains tepid, municipal credits are at least continuing to move in the right direction. Overall, 50.5% of the rating revisions the rating agency issued were positive while 49.5% were negative. During the last quarter of 2015, Moody's saw a more rapid improvement in the financial health of the issuers it rates when there were 54% upgrades to 46% downgrades. Falling oil prices accounted for a lot of the downgrades at the state level as the resulting decline in revenues for states like North Dakota, Texas, Louisiana, and Alaska accelerated and started to be felt in the form of realized



budget short falls.

Sector-wise, higher education had the biggest downgrade ratio at 8 to 1 which is the continuation of a long tend of decline and worry. A separate Moody's report later in the month suggested that some good news may be at hand for four year colleges as both 4 year public and private colleges saw an approximate 1% increase in student enrollment from the spring of 2015 to the spring of 2016. However, colleges and universities are still facing the challenge of translating that enrollment growth into revenue growth. This is a challenge that has not been met by a lot of institutions - particularly those that are not considered to have upper tier reputations.

S&P Reflects on Lessons Learned from Recent Chapter 9's

Also during May, Standard & Poor's produced a commentary that explores some of the more, for lack of a better term, "philosophical lessons" that they have, and haven't, learned from the recent spate of Chapter 9 filings. It's a kind of meandering analysis that doesn't fit neatly into any of their normal product categories that, frankly, we wish they would produce more of. Its stream of consciousness style (for a rating agency, at least) in describing the hard earned lessons of the past few years will undoubtedly eventually find their way into the bullet points of rigorously deconstructed rating methodologies where they will lose their impact as institutional memory. But as the set piece released last month, it brings up some original and very good observations about what has occurred in the most recent and relevant municipal bankruptcy proceedings.

Their overall takeaway is that legal protections written into bond documents are no substituteforcredit fundamentals and they should have little to no role in their assignment of a credit rating. S&P claims that they now view such mechanisms as statutory liens and special revenues as positive attributes when trying to estimate the possible recovery of funds after a Chapter 9 filing, but play no practical role in preventing it; so therefore, it should not be factored into the credit rating.

In a view that we hadn't heard expressed elsewhere yet, S&P goes on to point out that despite hopes that the recent filings would establish some legal precedent which could be relied upon for future reference, that hasn't really been the case. The rating agency notes that the work-outs of the recent major bankruptcies have all actually been the result of creditor and debtor negotiations which were ultimately approved by the presiding judge, not actual judicial rulings. Therefore a lot of care should be taken when considering their value as legal precedent.

Overall, S&P's commentary is a warning to bondholders that their first and overwhelming priority should be to buy bonds from issuers that won't experience financial duress, because once they do, there really is no way of predicting how the ultimate work out will look.

Sources: Moody's, Standard and Poor's

May 2016 Selected Bond Issues

General Obligation and Essential Service Revenue

Sale Date	Par ($ mil)	Issuer	Project	Ratings	Final Maturity	Yield	Spread to MMD	Notes
5/18/2016	$7.00	Round Rock, TX	General Obligation Refunding Bonds	/AA+/	8/15/2032	2.400%	39	
5/9/2016	$22.22	Ledyard, CT	General Obligation Bonds	/AA/	5/15/2036	3.060%	80	
5/16/2016	$27.11	Oswego, IL	General Obligation Bonds	Aa2/ /	12/15/2037	3.250%	97	
5/13/2016	$12.90	Port Orange, FL	General Obligation Refunding Bonds	Aa2/ /	4/1/2036	3.070%	87	

Education Sector

Sale Date	Par ($ mil)	Issuer	Project	Ratings	Final Maturity	Yield	Spread to MMD	Notes
5/5/2016	$52.08	New Jersey State Educational Facilities Authority	Revenue Refunding Bonds	A2/AA/A-	7/1/2035	3.240%	102	Insured
5/6/2016	$56.34	St. Lawrence County NY Industrial Development Agency (St. Lawrence Univ.)	Revenue Refunding Bonds	A2/A/	7/1/2043	3.170%	71	
5/11/2016	$71.38	University of Cincinnati	Revenue Refunding Bonds	Aa3/AA-/	6/1/2034	3.295%	120	
5/19/2016	$72.72	Atlanta, GA Development Authority	Revenue Refunding Bonds	Aa3/ /	7/1/2038	3.100%	78	

Water/Utility Sector

Sale Date	Par ($ mil)	Issuer	Project	Ratings	Final Maturity	Yield	Spread to MMD	Notes
5/16/2016	$39.41	Brownsville TX Utility System	Revenue Refunding Bonds	A2/AA/A+	9/1/2033	2.760%	73	Insured
5/24/2016	$6.93	Georgetown Texas Utility System	Revenue Refunding Bonds	/AA/	8/15/2028	2.290%	45	
5/20/2016	$19.29	Leesburg FL Electric System	Revenue Refunding Notes	/A/A	10/1/2037	3.260%	98	

Healthcare Sector

Sale Date	Par ($ mil)	Issuer	Project	Ratings	Final Maturity	Yield	Spread to MMD	Notes
5/26/2016	$177.77	New Jersey Health Care Facilities Financing Authority	Hospital Revenue Refunding Bonds	A2/A/	7/1/2046	3.000%	55	
5/13/2016	$16.47	Wisconsin State Health & Educational Facilities Authority	Revenue Bonds (Beloit Health System, Inc.)	/ /A-	7/1/2046	3.650%	123	

Source: Bloomberg