Municipal Bond Market Monthly

JANNEY FIXED INCOME STRATEGY

July 14, 2014

Janney CAPITAL MARKETS

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Are S&P's Local Government Ratings Too High?

- We have been increasingly skeptical of the general trajectory of S&P's public finance ratings.
- S&P's new local government rating methodology is causing the Great Municipal Bond Rating Dislocation to grow wider at a time when we still have a "Cautious" outlook on the local government sector.
- We think the greater divergence in ratings could amplify issuer rating shopping and we advise investors to critically examine local government holdings and potential purchases.
- Several Puerto Rico credits have been downgraded: please see page 9 for more details; California was upgraded by Moody's; Michigan's outlook lowered by S&P; New Jersey was placed on CreditWatch Negative by S&P; and New York State was upgraded by Moody's and Fitch.

Are S&P's Local Government Ratings Too High?

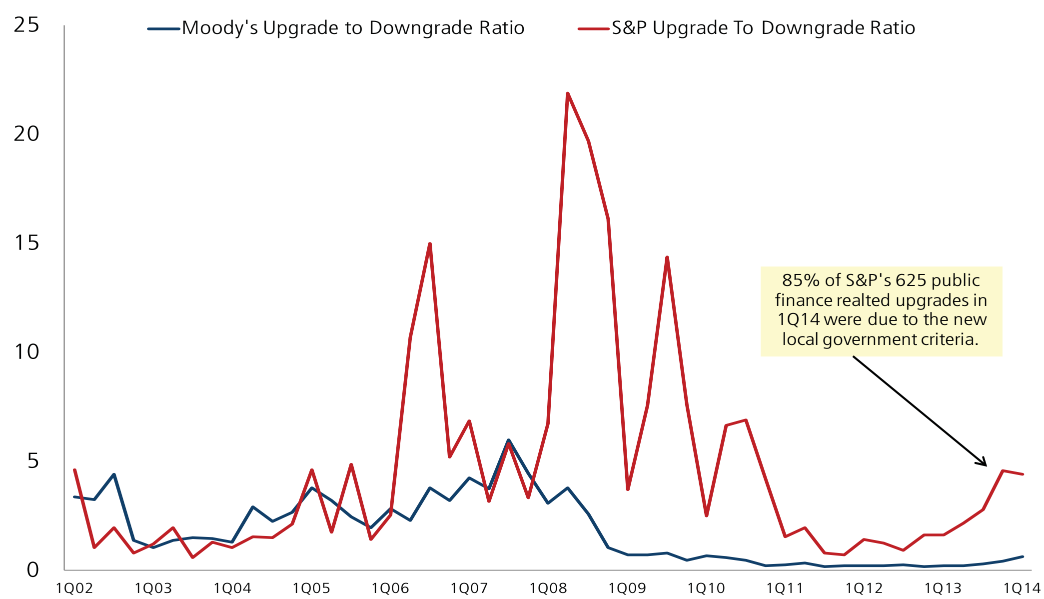
Part 1- At Issue: Regular S&P Public Finance Sector Upgrades

We have grown increasingly skeptical of Standard and Poor's (S&P) public finance ratings in recent years. Our rising level of skepticism is mostly due to the elevated upgrade to downgrade ratio S&P has reported since 2006. Our research and observations since the middle to end of 2013 raised our skepticism to new highs and we have found that some local government ratings may not be in line with current credit conditions. Ratings shopping by issuers, and by financial advisors and investment bankers on behalf of issuers has been prevalent in recent years. The potential for a discrepancy between Moody's and S&P's ratings increased after S&P's new local government criteria was released (September 2013) and so did the potential for ratings shopping. We also have found that changes in the content of S&P's local government rating reports often leave out significant information we believe is necessary for investors.

The Great Municipal Bond Rating Dislocation

The divergence of Moody's and S&P's ratings in the post-Great Recession era has been startling. We

Have Investors Noticed the Great Municipal Bond Rating Dislocation?



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

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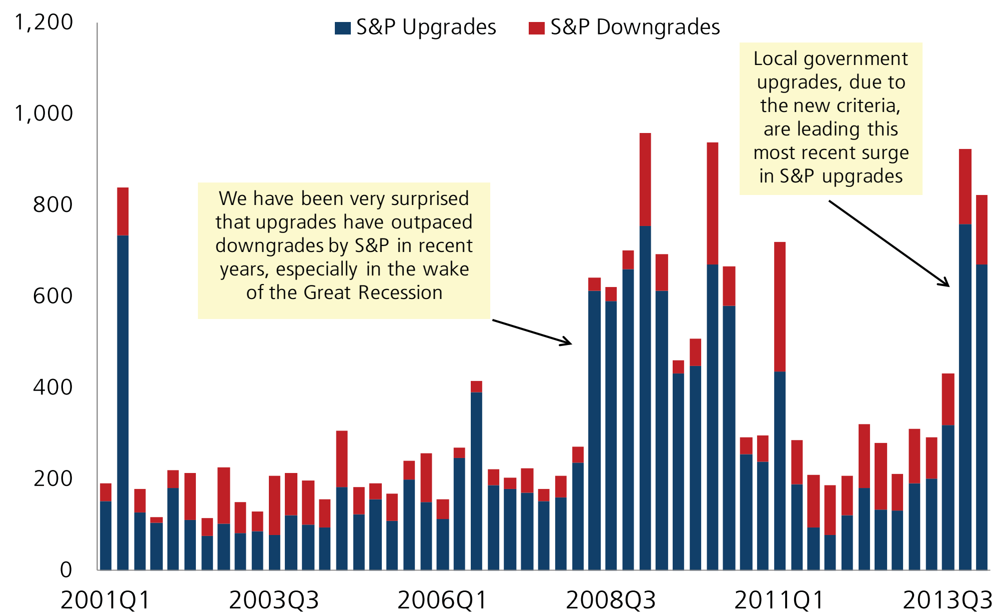
The divergence of Moody's and S&P's ratings in the post-Great Recession era has been startling.

refer to this constant deviation as the Great Municipal Bond Rating Dislocation, and it has been occurring since 2006, as you can see in the above data. Upgrades to U.S. municipal market credits have far outpaced downgrades at S&P. This has been a surprising trend to us – especially in the wake of the worst financial crisis since the Great Depression. It is even more surprising because many local governments are still struggling year to year with the act of balancing their budgets. It makes more sense to us that downgrades have far outpaced upgrades at Moody's, in contrast.

S&P's New Local Government Criteria

S&P published new criteria for rating its local government issuer clients on September 12, 2013. All rating agencies publish very specific criteria and methodologies for each of the municipal sectors

S&P Upgrades to Downgrades is Even Higher After the New Criteria

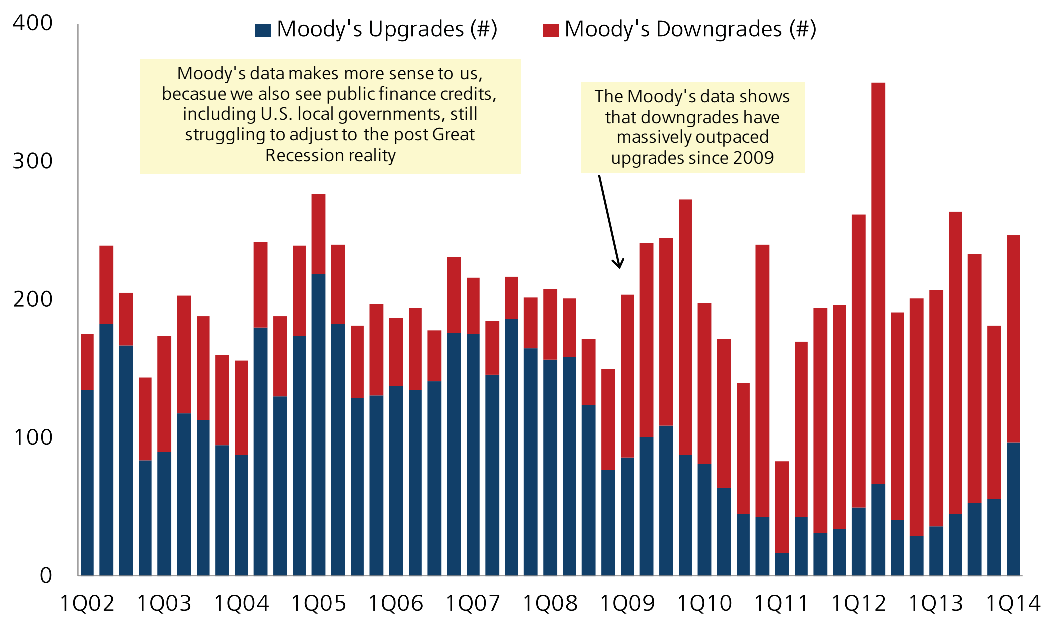


Source: S&P and Janney FIS.

Upgrades to U.S. municipal market credits have far outpaced downgrades at S&P.

they rate. These guides explain the factors more heavily considered when assigning ratings. When S&P adjusted its criteria last year, the changes resulted in a considerable amount of rating move-

Downgrades Continue to Outpace Upgrades at Moody's



Source: Moody's and Janney FIS.

It makes more sense to us that downgrades have far outpaced upgrades at Moody's, by contrast.

Janney retains a "Cautious" credit outlook on the local government sector, in fact.

ment, mostly to the upside, for local governments. From the beginning of the application of its new criteria, S&P clearly stated they expected more upgrades than downgrades. They predicted, of their 4,000 rated local governments, 30% (or 1,200) would be upgraded, 60% (2,400) would remain the same, and 10% (400) would be downgraded assuming current credit conditions. And upgrades have far outpaced downgrades. In 4Q13 S&P upgraded 774 local governments and downgraded only 129. 1Q14 data shows 625 upgrades versus 119 downgrades. S&P noted in a May 5, 2014 review that 85% of the upgrades (533 out of 625) and 33% (39 out of 119) of the downgrades "were linked to the revised criteria" in 1Q14.

What makes the S&P activity even more questionable than the timing, in which it has occurred, is that Moody's has continued to mostly downgrade local governments. In 4Q13, Moody's upgraded a total of 56 public finance credits and downgraded 125. Of those, 37 were local government upgrades and 91 were downgrades. In 1Q14 Moody's upgraded a total of 97 public finance ratings while also downgrading 150. Of those credits 78 of the upgrades were local governments and 102 were downgrades. Downgrades have consistently outpaced upgrades at Moody's over the last few years- a trend that makes sense to us because we are still seeing mostly difficult credit conditions pressure local governments. Janney retains a "Cautious" credit outlook on the local government sector, in fact.

We Expect an Elevated Pace of Ratings Shopping

Ratings shopping occurs when an issuer chooses to publish a rating from one agency that is higher than another.

Ratings shopping occurs when an issuer chooses to publish a rating from one agency that is higher than another. Sometimes an issuer will solicit ratings and then just choose to publish the highest. Oftentimes issuers will choose to publish a higher rating over a lower rating that was published during a previous financing. Rating shopping is not a new strategy and it is legal. From an issuer's perspective, it makes all the sense in the world – especially when investors are not paying attention. It is the job of a financial advisor or investment banker to help keep costs of issuance (rating fees) and financing costs at their lowest possible for issuers. By shopping for the highest rating, issuers can come out ahead as long as they are not excluding interested buyers by only publishing one rating. Prior to September 2013 (the release of the new local government rating criteria), there were situations were issuers shopped for the highest rating; however, the difference between Moody's and S&P local government ratings grew wider after S&P changed its criteria. A variation of more than one notch is more common now. in fact, we have seen several situations where S&P's ratings were multiple notches above Moody's. This leads us to believe that ratings shopping will continue, perhaps at an even faster pace than before.

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Select Issuers Who Published Only a S&P Rating, but have a Moody's Outstanding

Issuer		Moody's				S&P			
Name	State	Rating	Outlk	Date	Recent Action	Rating	Outlk	Date	Recent Action
Issuer A	NE US	A1	Stable	1Q13	Dwngrd to A1 from Aa3	AA	Stable	2Q14	Upgraded to AA from AA-
Issuer B	NE US	A2	None	4Q13	Removed Neg Outlook	AA+	Stable	2Q14	New S&P rating
Issuer C	SW US	A2	None	2Q12	Dwngrd to A2 from A1	AA-	Stable	2Q14	Upgraded to AA- from A+
Issuer D	NE US	A1	None	2Q13	None	AA	Stable	2Q14	Upgraded to AA from AA-
Issuer E	NMW US	A3	None	3Q11	Dwngrd to A3 from A1	AA-	Stable	4Q13	Upgraded to AA- from A

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

Our recent observations are based on financings where we performed in-depth credit reviews and through that process revealed this pattern. We also reviewed issuance trends broadly to get a better idea of issuer behavior. For example, in the month of June 2014, there were a little more than 200 local governments that sold debt in the primary market on a negotiated and competitive basis. Of those issues there were 50 that only published a S&P rating. This is not clear evidence of ratings shopping, but it should be considered. There were another 11 issuers in June that only published a S&P rating, even though the issuer also had a Moody's rating outstanding – the S&P rating was at least one notch higher than the Moody's rating in all of the 11 cases. And there were 16 cases where there was a Moody's rating that was lower, but Moody's had not published on the issuer after 2011, so we considered the analysis outdated. These last two data points are clearer evidence showing issuers sometimes (but not always) choose to publish only the highest rating.

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One Specific Example We Observed

This example is from a county in a northeastern U.S. state which sold debt in the 2Q14.

Here is an example from a county in a northeastern U.S. state that sold debt in the 2Q14. This county currently has a Moody's and a S&P rating; however, for its bond issue, which was marketed and sold in the 2Q14, the county only acquired and paid for (or published) the S&P rating. During the new issue marketing and sales process, investors would not know there is a Moody's rating (that is lower by 2 notches) unless they looked it up in Moody's database. The Moody's rating would not be referenced in the POS, in the Bloomberg description, listed on the IPREO calendar or in other marketing info. Issuers in cases such as this will likely only publish an S&P rating because the S&P rating is higher. In the specific example. we are citing S&P upgraded the county to "AA" from "AA-" because of the new criteria standards. In contrast, Moody's downgraded the county to "A1" from "Aa3" in 1Q13.

Different Descriptions of the Same County

County in a NE U.S. State: S&P Report as of 2Q14
Upgraded to AA (Stable) due to new S&P criteria
"Strong economy"
"Strong budgetary flexibility with expected available reserves of 8% of FY13 expenditures"
"Audited FY12 fund balance was $5 million, which we consider adequate."
No mention of multi-year draws or structural imbalance (or history of)

In our example: S&P did not cite the draws on reserves or a structural budget gap in the 2014 report...

The Same County in a NE U.S. State: S&P Report as of 2Q13
Rated AA- (Stable) (since 2Q09)
"Stable economic base"
"Good income levels"
"…strengths are partially offset by the county's weakened financial position following six consecutive years of drawdowns on reserves."
"Fund balance steadily declined since 2006 when it reached a high of $18 mill, or 22% of expenditures."
Indicates the county has a "structural budget gap"

...but S&P did mention both in their 2013 rating report.

The Same County in a NE U.S. State: Moody's Report as of 1Q13
Downgraded to A1 (Stable) from Aa3
"Stable tax base"
"Average socioeconomic indices"
"The downgrade reflects the county's weakened financial position caused by several years of structural imbalance, which has limited financial flexibility."
"drawn down reserves for past six consecutive years, expects pressure" from taxing limitations
"Fund balance declined from high of $17 mill or satisfactory 18% of revs FY07, to a narrow 10% of revs in FY11."

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

Another key concern of ours stemming from changes in the S&P criteria has to do with adjustments the rating agency made with its rating report content. The content and format is not as comprehensive as in the past. We sometimes find valuable information that was in pre-September 2013 reports that is no longer included. We also often find the difference in language used by S&P compared with Moody's to describe the same data or credit factors to be different. S&P is often much more positive and optimistic even in serious circumstances.

Another key concern of ours stemming from changes in the S&P criteria has to do with adjustments the rating agency made with its rating report content.

In our example, S&P in the 2014 report indicated the aforementioned county's budgetary flexibility is "strong". This is arguable. We also thought it was an oversight that S&P did not mention in its 2014 report that the issuer had a multi-year string of draws on reserves (6 up to through FY13) and a structurally imbalanced budget. The structural imbalance and the draws on reserves were noted in S&P's 2013 report, however. You can see more details about this criticism in the specific example above and readers should remember that although the above descriptions read like they are from different credits, they are all from reviews of the same county in a northeastern U.S. state.

Our Key Concern for Investors

Our key concern is that investors could be buying local government credits that only possess a S&P rating in the AA range (for example), that investors are receiving AA yields, but the credit quality is not indicative of a true double "A" credit. We think investors could be leaving some yield on the table without in-depth knowledge of the credit, and a Moody's rating to use as a double-check or starting point. In other words, we do not think that some of S&P's ratings reflect the risk investors are taking.

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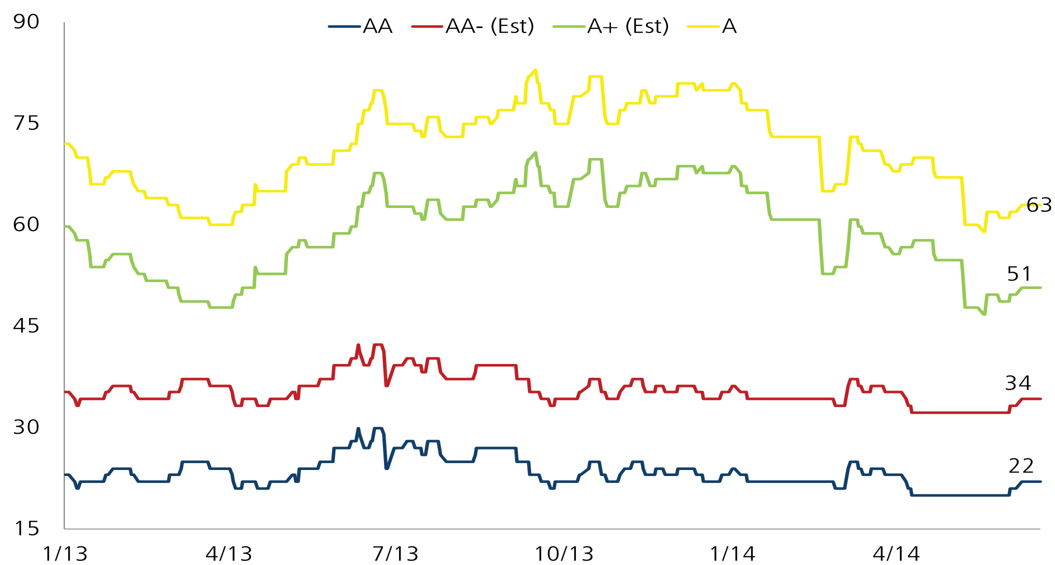
Spreads to to the Municipal Benchmark Can be Different by Rating



Source: Thomson Reuters and Janney FIS estimates.

Part 2 - Broader Implications

In the wake of how the rating agencies have handled Puerto Rico's ratings, the broader question of the rating agencies role in the municipal market might need to be re-evaluated...

There are broader consequences to consider as a result of the activity we have been observing; some have to do with regulatory oversight (or the lack thereof). In addition, there are extremely important implications for municipal market trading and price discovery as a result of our recent research. In the wake of how the rating agencies have handled Puerto Rico's ratings, the broader question of the rating agencies role in the municipal market might need to be re-evaluated - or more simply, should investors consider ratings at all? We are reminded of the Latin phrase: "Quis custodiet ipsos custodies?" When translated this means, "Who will watch the guards themselves" or "Who watches the watchmen?" The problem is that assigning this phrase to the role of the rating agencies implies that the rating agencies act as guardians, in this case as guardians of municipal market investors. And we all know, or we all should know by now, that the rating agencies are not investors' guardians. The rating agencies have limited accountability, in fact.

A Brief History of Ratings

Credit ratings have been an important part of the financial markets. Their modern history can be traced back to John Moody, who in 1909 developed a system of rating securities. Moody's Investors Service still exists today, and remains one of the key ratings services along with McGraw Hill's Standard and Poor's and Fitch Ratings. Other companies have tried and are continuing to

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Rating agencies modern history can be traced back to John Moody, who in 1909 developed a system of rating securities.

We advise investors to never depend solely upon ratings when making investment decisions.

...an over-reliance on ratings (especially inaccurate ratings) can lead to a world financial markets seizure, at worst.

gain traction in market-share, but it is a difficult field to break into. Among the three major rating agencies Moody's and S&P are the most utilized. Both Moody's and S&P rate securities in many business sectors and their coverage spans the globe. Their rating coverage includes the U.S. municipal bond market and although there are some municipal bonds sold as unrated securities most municipal bonds are rated by at least one and sometimes all three of the major rating agencies.

Moody's defines the concept of a rating on their web-site in this manner: "The purpose of Moody's ratings is to provide investors with a simple system of gradation by which future relative creditworthiness of securities may be gauged." And S&P has a similar definition on their web-site: "A Standard & Poor's issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program."

Investors Should Never Depend Upon Ratings Alone

We advise investors to never depend solely upon ratings when making investment decisions. If events before and now after the World Financial Crisis have taught investors anything, it is that they should have a very clear understanding of the underlying security backing their investments. So, while it is important to consider ratings when making investment decisions, we strongly advise investors to never depend upon ratings alone.

Ratings Do Matter, However

Credit ratings do matter for investors, despite what some believe or try to regulate into investors' habits. Ratings have been and continue to be a very important indicator for municipal bond investors. Ratings often help determine or at least are a leading influence of where a particular bond will price in the primary market or trade in the secondary. They matter for issuers too. Best-selling author and New York Times columnist Thomas Friedman noted in an interview with Jim Lehrer that, "There are two superpowers in the world today in my opinion. There's the United States and there's Moody's Bond Rating Service. The United States can destroy you by dropping bombs, and Moody's can destroy you by downgrading your bonds. And believe me, it's not clear sometimes who's more powerful." This interview was held back in 1996 and proved to be somewhat prophetic. This is because ratings and investors' dependence upon them have a downside. At their best ratings can help investors compare securities. But, an over-reliance on ratings (especially inaccurate ratings) can lead to a world financial markets seizure, at worst.

You see, it was pools of structured mortgage backed securities (important to note that it was not municipals) and collateralized debt obligations rated triple-A, prior to 2008, which helped stall the financial system between 2008 and 2009. A triple-A designation (also known as (Aaa/AAA/AAA) is the holiest of ratings, and indicates a securities' credit worthiness is of the highest quality. However, downgrades to junk status of those above mentioned securities shocked the financial markets. Later, a January 2011 report by the Financial Crisis Inquiry Commission reviewed the causes of the financial crisis, and concluded:

- "...failures of credit rating agencies were essential cogs in the wheel of financial destruction" and "key enablers of the financial meltdown"; and
- "The mortgage-related securities at the heart of the crisis could not have been marketed and sold without their [rating agencies] seal of approval. Investors relied on them, often blindly. In some cases, they were obligated to use them, or regulatory capital standards were hinged on them. This crisis could not have happened without the rating agencies. Their ratings helped the market soar and their downgrades through 2007 and 2008 wreaked havoc across markets and firms."

Condemnation came from other sources as well. The rating agencies were sharply criticized (again not directly related to municipal ratings) for "an erosion of standards, a willful suspension of skepticism, a hunger for big fees and market share, and an inability to stand up to" broker dealers selling financial products, according to Bethany McLean and Joe Nocera's book "All the Devils are Here, the Hidden History of the Financial Crisis", for example. Our take has always been that ratings can be considered, but only along with a more thorough review of the underlying credit, when investing in a municipal bond.

There has been a history of overreliance on ratings in the municipal market.

Between 2001 and 2007 between 47% and 57% of all new issue municipal bonds sold on an annual basis were insured.

Please see our January 7, 2014 Municipal Market Note titled, "Janney Outlook for U.S. Local Governments – Still 'Cautious'" for more on why we have a "Cautious" outlook.

Overreliance on Ratings (Insured Ratings) in the Municipal Market

There has been a history of overreliance on ratings in the municipal market. This occurred prior to the 2008 World Financial Crisis as well but was not directly connected to the above mentioned structured obligations and financial markets seizure. However, the overreliance did leave startled municipal bond market investors surprised to find that many of the municipal securities they owned were of lower credit quality than originally thought.

Between 2001 and 2007 between 47% and 57% of all new issue municipal bonds sold on an annual basis were insured. The practice of the rating agencies at the time was to assign an insured rating, and the rating agencies did not require an underlying rating (this has since changed in some cases). Occasionally, new issues would also include an underlying rating, usually lower, which was more reflective of the underlying credit of the issue. However, many of the insured bond issues only included the insured ratings, and therefore some investors had an inappropriate view of the credit quality of their municipal holdings. This led to a commoditized view of municipal credit and municipal credit spreads tightened significantly.

Part 3 - Summary and Investor Recommendation

Investors should very critically consider the underlying credit of all municipal entities and especially local governments they own or may potentially purchase. As mentioned before, we do not believe the credit environment for local governments is currently positive. (Please see our January 7, 2014 Municipal Market Note titled, "Janney Outlook for U.S. Local Governments – Still 'Cautious'" for more on why we have a "Cautious" outlook.) There are many factors pressuring local governments and we expect downgrades to continue to outpace upgrades (by Moody's at least) in the near to medium term. We still have an official "Cautious" outlook on local governments. Investors should never rely on ratings alone when making investment decisions. We also advise that if investors do own a bond with only a S&P rating, review the credit, and check to see if it also has a Moody's rating, especially if it is a local government and if it sold after September 2013. **Tom Kozlik**

Janney Municipal Sector Credit Outlooks and Review

Sector	Janney Credit Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Municipal Bond Index	-	-	6.14%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	5.52%	Moody's raised outlook back to "Stable"	Feb 2014 MBMM
Local Government	Cautious	Same	6.20%	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	7.34%	Added capacity should drive enplanements higher	May 2014 Note
Health Care	Cautious	Same	7.92%	Reimbursement uncertainty, margins pressured	Feb 2014 MBMM
Higher Education	Cautious	Same	6.71%	Enrollment declines equal financial stress	Feb 2014 MBMM
Housing	Stable	Same	5.95%	Some benefits for HFAs from higher interest rates	Feb 2014 MBMM
Public Power (Elec.)	Stable	Same	4.80%	Essential purpose nature enhances stability	Feb 2014 MBMM
Tobacco	Cautious	Same	N/A	More downgrades, consumption dropping	May 2014 MBMM
Toll Facilities	Cautious	Same	7.34%	Activity is leveling off, but still near 2004 levels	Feb 2014 MBMM
Water and Sewer	Stable	Same	6.92%	Essentiality factor, system upgrades looming	Feb 2014 MBMM

Source: Barclays Capital as of June 30, 2014 and Janney FIS.

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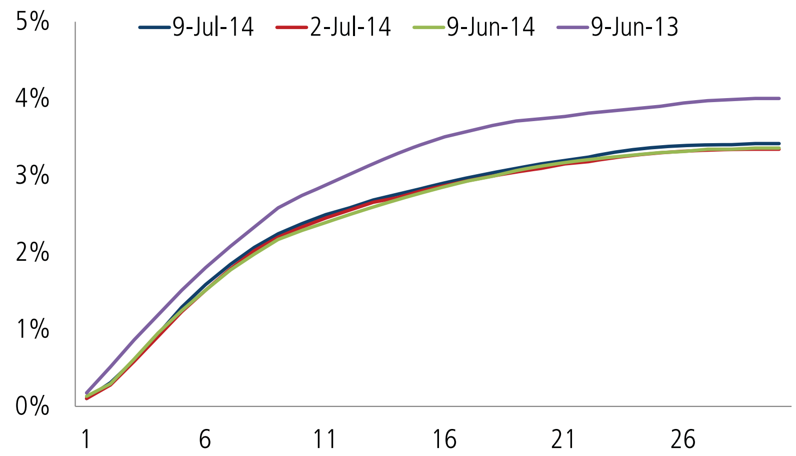
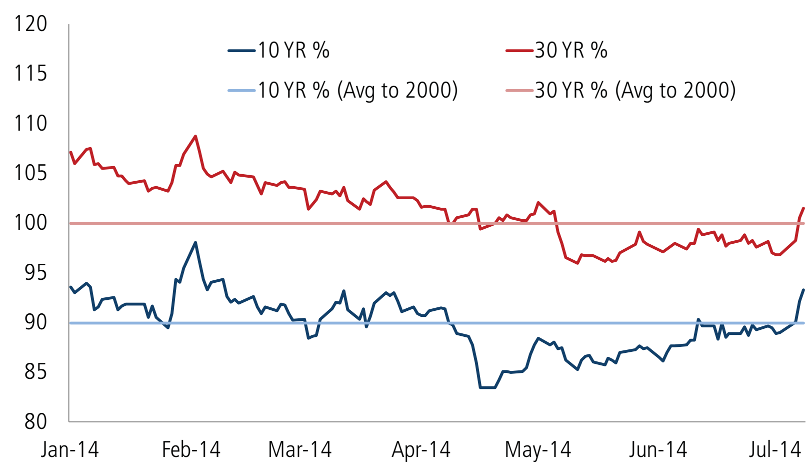
Aaa Municipal Benchmark Yields

Maturity	July 9th (as of)	W-O-W Change	M-O-M Change	Y-O-Y Change
1	0.11%	0.00%	-0.03%	-0.07%
2	0.31%	0.02%	0.01%	-0.21%
3	0.61%	0.02%	-0.01%	-0.26%
4	0.94%	0.02%	-0.01%	-0.25%
5	1.30%	0.06%	0.05%	-0.21%
6	1.59%	0.07%	0.07%	-0.22%
7	1.85%	0.06%	0.07%	-0.23%
8	2.07%	0.05%	0.08%	-0.26%
9	2.25%	0.05%	0.08%	-0.33%
10	2.38%	0.05%	0.09%	-0.36%
11	2.49%	0.04%	0.09%	-0.39%
12	2.59%	0.03%	0.09%	-0.43%
13	2.68%	0.03%	0.08%	-0.48%
14	2.76%	0.04%	0.07%	-0.53%
15	2.84%	0.04%	0.06%	-0.57%
16	2.91%	0.04%	0.05%	-0.60%
17	2.98%	0.05%	0.05%	-0.60%
18	3.04%	0.05%	0.04%	-0.61%
19	3.10%	0.05%	0.03%	-0.61%
20	3.15%	0.05%	0.03%	-0.59%
21	3.20%	0.05%	0.03%	-0.57%
22	3.25%	0.06%	0.04%	-0.56%
23	3.30%	0.07%	0.06%	-0.55%
24	3.34%	0.07%	0.07%	-0.54%
25	3.37%	0.07%	0.07%	-0.54%
26	3.39%	0.07%	0.07%	-0.55%
27	3.40%	0.07%	0.06%	-0.57%
28	3.41%	0.07%	0.06%	-0.58%
29	3.42%	0.07%	0.06%	-0.58%
30	3.42%	0.07%	0.06%	-0.59%

Aaa Municipal Benchmark Yield Curve

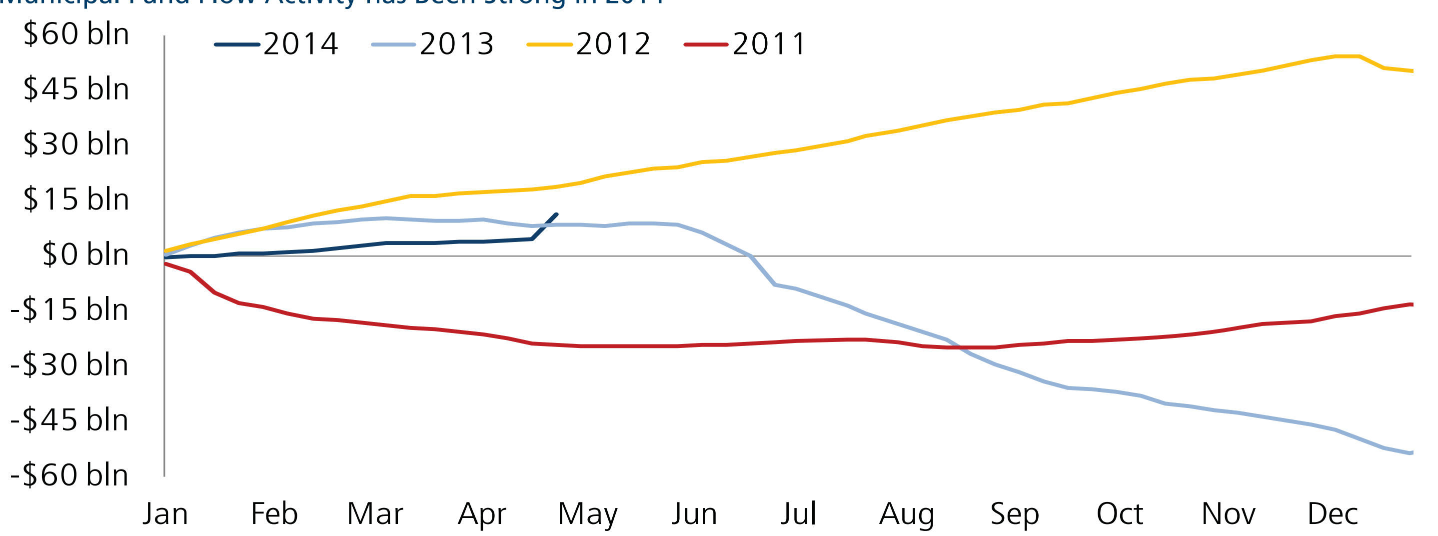


10 Year and 30 Year M/T Ratios



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

Municipal Fund Flow Activity has Been Strong in 2014



Source: Thomson Reuters, ICI Data and Janney FIS.

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Select Recent Changes to Ratings & Outlooks (as of July 10, 2014)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Puerto Rico (Comm GO)	PR	Downgraded to BB- from BB by Fitch	9-Jul-2014	BB-	Following passage of debt restructure act
PR Sales Tax (COFINA)	PR	Downgraded to BB- from AA- by Fitch	9-Jul-2014	BB-	Following passage of debt restructure act
COFINA sub lien	PR	Downgraded to BB- from A+ by Fitch	9-Jul-2014	BB-	Following passage of debt restructure act
PR Pension Funding	PR	Downgraded to BB- from BB by Fitch	9-Jul-2014	BB-	Following passage of debt restructure act
PR Aqueduct/Sewer	PR	Downgraded to B+ from BB+ by Fitch	9-Jul-2014	B+	Following passage of debt restructure act
Puerto Rico Elec Power	PR	Downgraded to B- from BB- by S&P	9-Jul-2014	B-	Inability to renew liquidity facility
Alabama State U	AL	Downgraded to Ba1 from Baa1 by Moody's	3-Jul-2014	Ba1/A-	Weakened financial position
Puerto Rico (Comm GO)	PR	Downgraded to B2 from Ba2 by Moody's	1-Jul-2014	B2	Following passage of debt restructure act
PR Sales Tax (COFINA)	PR	Downgraded to Ba3 by Moody's	1-Jul-2014	Ba3	Following passage of debt restructure act
COFINA sub lien	PR	Downgraded to B1 by Moody's	1-Jul-2014	B1	Following passage of debt restructure act
Puerto Rico Elec Power	PR	Downgraded to Caa2 from Ba3 by Moody's	1-Jul-2014	Caa2	Following passage of debt restructure act
PR Aqueduct/Sewer	PR	Downgraded to Caa1 from Ba3 by Moody's	1-Jul-2014	Caa1	Following passage of debt restructure act
PR High Trans Auth	PR	Downgraded to Caa1 & Caa2 by Moody's	1-Jul-2014	Caa1/Caa2	Following passage of debt restructure act
PR Gov Dev Bank	PR	Downgraded to B3 from Ba2 by Moody's	1-Jul-2014	B3	Following passage of debt restructure act
Univ of Puerto Rico	PR	Downgraded to Caa1 & Caa2 by Moody's	1-Jul-2014	Caa1/Caa2	Following passage of debt restructure act
Phil. Please Touch Mus.	PA	Downgraded to D from CC by S&P	1-Jul-2014	D	Failure to pay prin and interest to bondhlds
New Mexico State U	NM	Outlook lower to Negative from Stable by S&P	1-Jul-2014	Aa3/AA	Enrollment and application declines
Puerto Rico (GO & other)	PR	Rating on Watch with Neg Implications, S&P	1-Jul-2014	BB+	Following passage of debt restructure act
Puerto Rico Elec Power	PR	Downgraded to CC from BB by Fitch	26-Jun-2014	CC	Proposed debt restructure act, liquidity
California (State of)	CA	Upgraded to Aa3 from A1 by Moody's	25-Jun-2014	Aa3/A/A	Improving financial position
Central Falls (City)	RI	Upgraded to Ba3 from A1 by Moody's	23-Jun-2014	Ba3/BB	Favorable recent operating results
New York (State)	NY	Upgraded to AA+ from AA by Fitch	20-Jun-2014	Aa1/AA/AA+	Improved fiscal management practices
Rhode Island (State)	RI	Removed from CreditWatch by S&P	18-Jun-2014	Aa2/AA/AA	After passage to pay 38 studio debt
Michigan (State of)	MI	Lowered outlook to Stable frm Positive, S&P	17-Jun-2014	Aa2/AA-/AA+	Lower revenues and slow growth
NY MTA	NY	Upgraded to AA- from A+ by S&P	17-Jun-2014	AA-	Extremely strong fundamentals
GARVEE (Various)	VAR	26 GARVEE issues downgraded by Moody's	16-Jun-2014	A1 to A3	Uncertain federal funding
New York (State)	NY	Upgraded to Aa1 from Aa2 by Moody's	16-Jun-2014	Aa1/AA/AA	Above average resilience during recovery
U of Pittsburgh	PA	Upgraded to AA+ from AA by S&P	10-Jun-2014	AA+	Strong demand and enrollment
US Virgin Islands (GO)	VI	Implied GO Downgraded to BB- from BB, Fitch	10-Jun-2014	BB-	Significant financial pressures
Haverford College	PA	Outlook lowered to Negative from Stable by S&P	9-Jun-2014	Aa3/AA	Deficit operations and high debt burden
Allegheny County	PA	Outlook raised to Stable from Negative by Moody's	6-Jun-2014	A1/AA-	On the road to structural balance
Philadelphia School Dist	PA	On Review for Downgrade, by Moody's	6-Jun-2014	Ba2	Budget uncertainties
Providence Health and Serv.	WA	Downgraded to AA- from AA by S&P	5-Jun-2014	Aa3/AA-/AA	Weaker operating income, & DS covg.
Maine (State of)	ME	Outlook raised to Stable from Negative by Moody's	4-Jun-2014	Aa2/AA	Stable revenue picture
Village of East Hampton	NY	Upgraded to Aa1 from Aa2 by Moody's	3-Jun-2014	Aa1	Three years of operating surpluses
New Jersey (State of)	NJ	Placed on Negative Credit Watch by S&P	2-Jun-2014	A1/A+/A+	Revenue shortfalls and lagging recovery
Kentucky (State of)	KY	Raised outlook to Stable from Negative by Moody's	2-Jun-2014	Aa2	Positive outlook from Moody's on finances
Jefferson Health System	PA	Placed in Rating Watch Evolving by Fitch	28-May-2014	Aa3/AA/AA	Due to a planned restructuring
Radnor Twp School Dist	PA	Upgraded to Aa1 from Aa2 by Moody's	28-May-2014	Aa1	Tax increases and conservative budgeting

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

State and Other Select Issuer Ratings (July 10, 2014)

	Moody's			S&P			Fitch		
State	Rating	Outlook	Last	Rating	Outlook	Last	Rating	Outlook	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	Aa3	Stable	6/25/2014	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	Stable	6/2/2014	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	Stable	6/4/2014	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-	Stable	6/17/2014	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+	Neg Watch	6/2/2014	A+	Negative	5/1/2014
New Mexico	Aaa	Stable	7/19/2013	AA+	Stable	2/5/1999	NR	-	-
New York	Aa1	Stable	6/16/2014	AA	Positive	8/27/2012	AA+	Stable	6/25/2014
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	B2	Negative	7/1/2014	BB+	Watch Neg	7/1/2014	BB-	Negative	7/9/2014
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 Municipal Bond Market Publications

Title	Date	Pub	Notes
Puerto Rico: It All Goes Back to Economy	June 30, 2014	Weekly	Puerto Rico's economy continues to contract
OPEBS v Pension Primer	June 23, 2014	Weekly	OPEB is funded on a pay as you go basis
A Brief Pension Primer	June 16, 2014	Weekly	Update on pension funding
Inertia - Not Best Response to Rate Concerns	June 12, 2014	Note	Investors are concerned about potential for rising rates
What a Difference a Year Makes	June 9, 2014	Weekly	M/T Ratios have stabilized since last summer
Puerto Rico - Post Visit Update	June 5, 2014	Note	April revenue miss increases budget balance
Supply Constraints	June 2, 2014	Weekly	Summer supply and demand collision
The Rime of Municipal Bond Issuance	May 22, 2014	Monthly	Municipal Issuance will drop in 2014 & in coming years
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

Source: Janney Fixed Income Strategy.

Janney CAPITAL MARKETS

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.

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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

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

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