

MUNICIPAL BOND MARKET MONTHLY

JANNEY FIXED INCOME STRATEGY

April 20, 2011



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Negative Rating Agency Moves Suggest Uncertainty and Worry About Surprise Downgrades

- Municipal market new issue volume failed to materialize in 2011 to date, leading to numerous reductions in supply forecasts; the most severe has issuance falling 55% versus 2010.
- Despite all that was made of municipal bond mutual fund outflows in late 2010, perhaps the greater feature of the markets is investor demand for individual bonds, rather than funds.
- S&P put the U.S. on negative outlook and while we do not expect this to affect near term state ratings it could influence municipal issues on a case by case basis.
- Calls from investors to regulators for better disclosure requirements continue – do we receive enough up-to-date detail about issuer’s financial performance?
- The multi-notch downgrade to DeKalb County, GA could be a tipping point for the municipal market.
- A law firm’s 187 page study, presented to Harrisburg’s City Council noted, Act 47 not Chapter 9 bankruptcy is the answer to the city’s fiscal woes.
- Idaho’s rating upgraded by S&P; Kansas’ outlook lowered by Moody’s; Nevada downgraded by Moody’s and S&P; Puerto Rico upgraded by S&P; S&P lowered and withdrew the rating for DeKalb County, GA; Philadelphia’s outlook raised by S&P; Pittsburgh’s outlook lowered by S&P; and the University of Pittsburgh’s Medical Center’s outlook raised by Moody’s.

MARKET COMMENTARY

New Issue Volume - Where Did it All Go?

Nearly four months into the year, new issue volume anticipated as the year began has failed to materialize. Recent predictions for total 2011 new issuance have ranged from \$275 billion (Citigroup) to as low as \$200 billion (MMA), compared to \$430 billion in 2010. First quarter 2011 volume was \$47 billion compared \$104 billion in the same period last year. California and Illinois offer an interesting contrast of issuance plans. Of the ten largest long term municipal issues in history, six have been from California issuers while three have been from Illinois, including the largest, a \$10 billion taxable pension fund issue in 2003. California finance officials say the state will issue no bonds through the end of their fiscal year (June 30), and they plan to extend this block on issuance through the end of the calendar year. Illinois on the other hand, borrowed \$3.7 billion (taxable) in February and the governor is negotiating with his state legislature to borrow as much as \$8.75 billion, the approximate amount of unpaid bills in the Treasurer’s inbox.

We expect the pace to pick up as the year goes on, with a total closer to \$300 billion. For one thing, much of 2011’s potential volume was pushed into 2010, as issuers pushed to lock in the favorable BABs program before it expired on December 31. This will have diminished impact on second half 2011 volume, and with July starting the new fiscal year for most states and many other issuers, we expect total issuance to trend higher.

Investors Have Been Adding to Municipal Portfolios

Municipal mutual fund inflows and outflows are closely watched by municipal market analysts, with recent liquidations to pay taxes ushering in the 23rd straight week of outflows, but an examination of the overall municipal market, as indicated by MSRB trade data, shows that in the first three months of the year, customer purchases of \$333 billion offset customer sales of \$266 billion by \$67 billion, more than making up for the \$20 billion of 1st Q fund outflows. Individuals, particularly high net worth investors have been adding to municipal bond positions. Money management companies have seen their mutual fund units be net sellers of tax free bonds while the divisions responsible for Separately Managed Accounts (SMA) have been net buyers.

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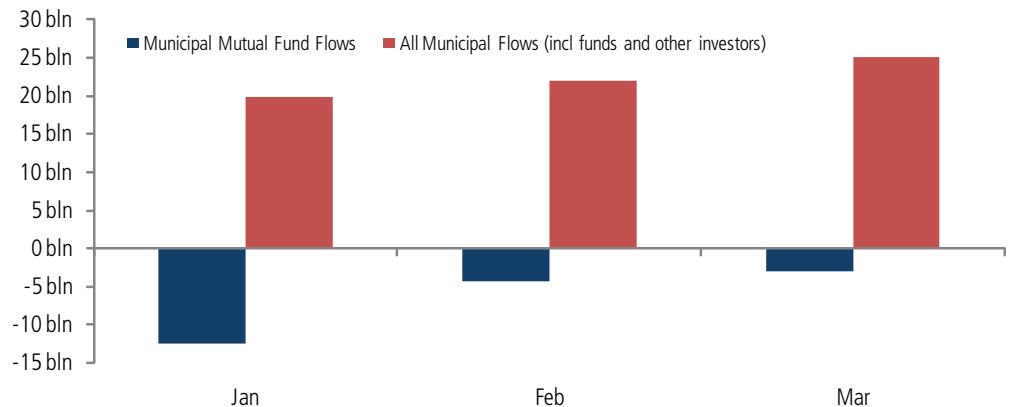
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We expect the pace of municipal issuance to pick up as the year goes on, with total volume closer to \$300 billion.

Individuals, particularly high net worth investors have been adding to municipal bond positions.

When primary market supply picks up, relative yields as measured by ratios will move higher.

Total Municipal Bond Demand Has Been Strong

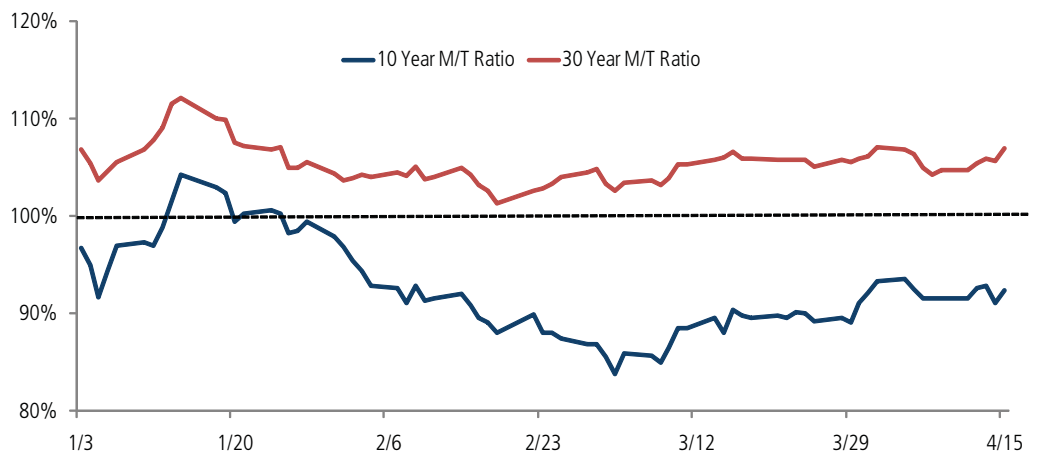


Source: ICI Data, MSRB and Janney Fixed Income Strategy.

M/T Ratios Have Gained Momentum

When supply meets demand, price is impacted – in the case of municipal bonds price is yield. Municipal to Treasury ratios, the yield of municipal bond benchmark indexes divided by the same maturity Treasury yield, are on the high side of their recent trading range. The steady retail investor demand comes with a price – higher yields. If and when supply picks up, relative yields as measured by ratios will move higher. If there is upward pressure on ratios in a very low volume (supply) environment, expect further pressure as volume increases. The final 2011 tally will show much lower volume than previous years, but the pace will trend upward as the year progresses. **Alan Schankel**

M/T Ratios Have Gained Since February



Source: MMD from Thomson Reuters and Janney Fixed Income Strategy.

S&P stated a negative outlook usually means there is a 1 in 3 chance a rating downgrade could follow within two years.

Credit pressure from the negative outlook will likely influence issues within individual municipal sectors on a case by case basis.

We have not and do not expect to make any changes to the Janney Sector Outlooks in the near term.

S&P LOWERED U.S. RATING OUTLOOK TO NEGATIVE

Most financial market participants were surprised by S&P's Monday morning warning shot across the United States' bow. S&P lowered the U.S.' credit outlook to negative from stable and affirmed its AAA, in case you did not hear. Please note that the U.S. has never had a negative outlook on any of its ratings. While the rating agency stated a negative outlook usually means there is a 1 in 3 chance a rating downgrade could follow within two years, the time horizon does not bode well for U.S. credit prospects. Some factors the rating agency cited as influencing the outlook designation were:

- Very large budget deficits, rising government indebtedness, and uncertainty about a plan to address them.
- Material risk that U.S. policymakers might not reach an agreement on how to address medium- and long-term budgetary challenges by 2013.

What Does it Mean for the Municipal Sector?

We do not expect S&P's negative rating outlook to affect state ratings in the near term although the pressure will likely influence issues within individual municipal sectors on a case by case basis. Issuers in the not-for-profit health care sector and other sectors which receive a significant amount of revenues from the federal government are likely to be examined and possibly experience negative rating stress. S&P announced during a conference call that they could take rating actions toward public finance credits in coming days. **Tom Kozlik**

JANNEY MUNICIPAL SECTOR OUTLOOK

The effects the above mentioned lowered outlook for the U.S. and proposed state budget cuts will have on the credit profiles of municipal market issuers is on investors' minds. We currently expect the local government sector and specifically county governments and school districts issuers along with the public higher education sector to be most affected by potential state budget cuts but we do not expect a high level of rating deterioration. We have not and do not expect to make any changes to the Janney Sector Outlooks based on the U.S. outlook revision by S&P, proposed state budgets or likely lower federal government spending. **Tom Kozlik**

Janney Municipal Sector Outlook

Sector	Janney Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Municipal Bond Index	-	-	1.63%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	3.17%	States raises taxes and cutting some	Feb MBMM
Local Government	Cautious	Same	1.85%	Less revenue, downgrade worry	Nov MBMM
School Districts	Stable	Same	-	Less rev but States offer security	2011 Outlook
Airports	Cautious	Same	0.91%	Enplanements flying again in 2010	2011 Outlook
Higher Education	Cautious	Same	1.13%	Publics less \$, privates face pressure	2011 Outlook
Health Care	Cautious	Same	0.62%	Sector mixed, ratios are improving	2011 Outlook
Housing	Stable	Same	2.98%	Single family is stronger than multi	Jan 2011 Note
Public Power (Elec.)	Stable	Same	1.68%	Essential purpose, but volatile	2011 Outlook
Tobacco	Cautious	Higher	-1.07%	Stronger than ratings show	Dec 2010 Note
Toll Facilities	Stable	Same	0.91%	Traffic rising, DS cov. strong	2011 Outlook
Water and Sewer	Stable	Same	1.77%	Essential purpose, future scarcity	2011 Outlook

Source: Barclays Capital and Janney Fixed Income Strategy.

Rule 15(c)2-12 indirectly requires municipal issuers to provide ongoing disclosure.

A problem with current disclosure rules is that there is not a deadline for issuers to file their annual financial information.

DeKalb's five notch downgrade is likely an outlier but we still believe market observers could look back to it as a tipping point.

MUNICIPAL BOND DISCLOSURE - IS IT ENOUGH?

Continuing Disclosure Requirements

Municipal bond investors and analysts have long suggested that the current structure by which issuers disclose and update financial performance is not good enough. While the recent rating downgrade to DeKalb County raised this matter again, it was not the first and will certainly not be the last instance this topic resurfaces, especially in the wake of the economic crisis where the investing community believes it needs better disclosure to avert uninformed investing decisions.

First, let us review the status of disclosure requirements in the municipal market. It is Rule 15(c)2-12 of the Securities and Exchange Act of 1934 which indirectly requires municipal issuers to provide ongoing disclosure. This is an indirect requirement because the SEC is prohibited from directly imposing disclosure requirements on municipal issuers. Therefore, rules are applied to broker-dealers who underwrite bond transactions. The underwriters enter into a Continuing Disclosure Agreement with issuers as part of the new issue underwriting process. This arrangement requires issuers to provide annual financial information that is close to the data provided in an issuer's official statement. The annual financial information that is commonly provided usually takes the form of an audited Comprehensive Annual Financial Report (CAFR). Some issuers will also provide other operating or financial data as agreed or expected by investors, but this is usually on a very limited basis.

Old Information is Not Very Useful to Investors

A key problem with this arrangement is that there is no deadline for issuers to file their annual financial information and its value is limited when it is only released once a year. Most issuers will file their CAFR anywhere from 6 to 18 months from the end of their fiscal year, in practice. That means the most recent CAFR filed by many municipal issuers at this moment is probably currently dated Dec. 31, 2009. Depending upon the issuer's fiscal year end some may have been filed ending in June 2010. In extreme cases we see issuers release two to three years of financial statements a few months before a new bond issue. This is because they were likely negligent in keeping up with their past disclosure requirements and they need to catch up in order to sell a new debt issue. In DeKalb County's case, all legally required disclosure was up to date, to our knowledge. But, the latest information was from December 31, 2009 and provides little value in influencing an investment decision.

Updated Disclosure Results in Lower Bond Costs

We have all heard the saying that, "Knowledge is power." But, we would argue that axiom should be taken another step further and state it is, "The effective use of knowledge is power." This should be considered by municipal bond issuers, investors and regulators when thinking about the topic of disclosure in the municipal bond market. It is important for issuers to understand that updated disclosure, which is neatly summarized and includes details, leads to better investor relations. Better investor relations result in higher secondary market interest in an issuer's bonds and will likely also lead to stronger primary market demand which could translate into lower interest costs. **Tom Kozlik**

DEKALB DOWNGRADE COULD BE A TIPPING POINT

S&P Downgraded DeKalb County to BBB from AA-, Then Withdrew the Rating

While we believe the five notch downgrade, to BBB from AA-, Standard and Poor's assigned to DeKalb County, (Aa3/Withdrawn) Georgia on March 28, 2011 is likely an outlier as far as our expectations for near term rating agency action is concerned, we believe market observers could look back to it as a tipping point. This does not mean we expect each rating agency to systematically reduce ratings of municipal issuers by several notches, because we do not. But, DeKalb suffered from significant troubled municipal credit symptoms including budget mismanagement, the absence of a fiscal plan, outdated ratings, the lack of timely financial disclosure, and a recurring lack of political will. These are all factors which if left unnoticed among other issuers could easily catch the investing community again by surprise. Or worse yet, if such a situation occurs with another higher profile issuer, the news could result in investor anxiety and gridlock within the municipal market.

The media has calmed their calls for municipal market Armageddon but we believe worries about municipal market credit deterioration and potential ratings downgrades are increasing.

Massachusetts stresses the importance of investor outreach.

Before its December 2010 analysis S&P was silent on the credit going back to January 2006.

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It seems as though the popular media has calmed their calls for municipal market Armageddon and inexpert advice has recently been at a minimum. However, we believe worries about municipal market credit deterioration and potential ratings downgrades are increasing. Interestingly, we would have thought that if anything would have brought the past cynical focus back onto the municipal market it would have been the DeKalb downgrade. The story possesses everything the doomsdayers could want: a lack of political will to raise taxes, possible rating agency indifference, and a sharp downgrade to just above investment grade finished off with a rating withdrawal. Yet, we have heard or read practically nothing about the event or its possible meaning.

S&P Massachusetts Mistake Shows Investors are Worried

The press might not be paying attention, but some investors surely are taking notice. There is clearly an increased worry of potential rating agency downgrades among investors as illustrated by the April 8th false alarm surrounding some mistaken Massachusetts (Aa1/AA/AA+) ratings withdrawals. What happened that Friday afternoon you ask? Well, a limited number of bond owners received notices indicating some Massachusetts' S&P ratings were withdrawn. It turned out S&P simply made an input error regarding some, but not all, of the Commonwealth's CUSIPs. Those rating changes were quickly processed by services such as Bloomberg which sends automatic rating change updates. S&P released a notice the same day correcting and reinstating the ratings on the various Massachusetts issues.

Many investors did not even notice. But many of those who were in the office on that Friday afternoon and who received the notices phoned S&P, brokerage desks, credit analysts and even the Commonwealth's Treasurer. Investors were worried that Massachusetts' rating was S&P's next downgrade target. There was no basis for such an expectation because Massachusetts has been in front of the investing community and regularly releases updated information. In fact, this analyst along with about 30 other municipal credit analysts recently attended a meeting where the new Massachusetts Treasurer stressed the importance of investor outreach and asked about the type and frequency of disclosure that the investor community required.

What Happened to DeKalb County?

DeKalb County, population of about 747,000 is located in the northern part of Georgia and contains about 10% of the city of Atlanta. S&P lowered the rating on the formerly AAA rated county to BBB from AA- because of multi-year operating deficits and a lack of structural budget solutions, among other reasons. Then S&P withdrew the rating due to a lack of financial information. This was after S&P announced back on January 19, 2011 that they were lowering the rating to AA- from AAA and retaining the negative outlook pending receipt of updated financial data. When announcing the March rating action S&P noted that updated financial information was not received. In December 2010 S&P put the issuer on Creditwatch Negative, an action that indicates a downgrade is possible and even likely. Before the December 2010 analysis S&P was silent on the credit going back to January 2006, according to data on its subscription web-site. Moody's last reported on the credit in December 2010 when it downgraded the credit to a Aa3 and kept a negative outlook on the credit.

DeKalb County, Georgia GO Rating History

Rating Agency	Date	Action	Moody's Rating (Outlook)	S&P Rating (Outlook)
S&P	28-Mar-11	Downgrades to BBB from AA- then withdrew	Aa3 (Negative)	Withdrawn
S&P	19-Jan-11	Downgrades to AA- from AAA	Aa3 (Negative)	AA- (Negative)
S&P	20-Dec-10	Places AAA on CreditWatch Negative	Aa3 (Negative)	AAA (Negative)
Moody's	17-Dec-10	Downgraded to Aa3 from Aa1 and kept neg outlook	Aa3 (Negative)	AAA
Moody's	9-Dec-09	Downgraded to Aa1 from Aaa and assigned a neg outlook	Aa1 (Negative)	AAA
S&P	20-Jan-06	Upgraded to AAA from AA+	Aaa	AAA

Source: Moody's, S&P and Janney Fixed Income Strategy.

The market cannot depend upon financial information that is a year and a half old when events that occurred in the last three to six months are significantly changing underlying credits.

DeKalb's CEO recommended property tax increases for FY2010 and FY2011. However, the County Commissioners rejected them for two consecutive years.

DeKalb is probably an outlier because it is not likely S&P or the other rating agencies will perform multi-notch downgrades to a host of other AAA rated issuers.

Not Typical for an Issuer to Ignore a Rating Agency's Request

S&P requested updated financial information in January 2011 and had not received the information by the end of March. This is not a typical. Usually issuers respond quickly to requests for data. This hesitation should be considered a red flag. Aside from this failure to respond, this situation with DeKalb shows that there is a wide disconnect between the value of disclosure and disclosure requirements, especially in the current economic environment. Just because a municipal issuer is up to date with its official disclosure requirements in accordance with the SEC's Rule 15c2-12 (which requires underwriters to provide up to date continuing disclosure documents for bondholders) it does not mean the available information is recent or even valuable enough to influence a buy or sell decision. Even now in April 2011, the latest financial statements available for many general obligation issuers (and DeKalb) are from 2009. That is an extraordinarily unnecessary lag in this day and age. The market cannot depend upon financial information that is a year and a half old when events that occurred in the last three to six months are significantly changing underlying credits.

A Lack of Political Will

A key factor investors need to consider from the county's fiscal stand-point is the lack of political will shown by the DeKalb County Commissioners. Although the county has experienced multiple years of operating deficits it is important to note that the county's chief executive officer recommended property tax increases during the FY2010 and FY2011 budgets. However, the County Commissioners rejected property tax increases for two consecutive years.

Rating Agency Indifference

Some argue that S&P fell asleep at the switch and was trying to make up for its inaction regarding the rating with the multi-notch downgrade. S&P did not publish anything about the credit for almost four years, since it assigned the upgrade to AAA in 2006. Could this have been rating agency indifference? Perhaps. But, we would argue that the investing community knows the rating agencies do not have the staffing power to monitor and publish regular updates on every single credit. S&P's failure to review the credit since 2006 should have been a negative indicator to all investors.

What About AAA Rated Pennsylvania Counties?

Is the DeKalb County rating action an outlier? Probably, because it is not likely S&P or the other rating agencies will perform multi-notch downgrades to a host of other AAA rated issuers. But, what about AAA rated Pennsylvania counties? Do any of them suffer from similar symptoms as DeKalb and are they at risk to be downgraded? Looks like the answer is...maybe.

Could Bucks Be Next?

Bucks County (Aaa/AA+) the first issuer on the below list was rated Aa1 until it was recalibrated to Aaa during Moody's recalibration period in the spring of 2010. Recalibrated means the rating increase was due to Moody's shift to a global ratings scale. And Bucks had not been reviewed by the rating agencies since 2008. This should be a warning that the credit reviews could be out of date.

When was the Last Rating Agency Review of AAA Rated PA Counties?

PA County	Current Ratings	Moody's Rating Action Date	Moody's Rating Action	S&P Rating Action Date	S&P Rating Action
Bucks	Aaa(Stable)/AA+(Stable)	23-Apr-10	Recalibrated to Aaa from Aa1	29-Sep-08	Affirmed AA+
		29-Sep-08	Affirmed Aa1	10-Apr-08	Raised to AA+ form AA
Cumberland	NR/AAA(Stable)	NA	NA	12-Oct-10	Affirmed at AAA
		NA	NA	13-Feb-09	Affirmed at AAA
Chester	Aaa(Stable)/AAA(Stable)	12-Apr-10	Affirmed Aaa	8-Apr-10	Affirmed AAA
		10-Nov-09	Affirmed Aaa	13-Nov-09	Affirmed AAA
Montgomery	Aaa (Negative)/NR	23-Nov-10	Affirmed Aaa and lowered outlook to Negative	NA	NA
		28-Jan-10	Affirmed Aaa	NA	NA

Source: Moody's, S&P and Janney Fixed Income Strategy.

We do not suspect that there is a multi-rating downgrade similar to DeKalb County's in Bucks' future.

Bucks and DeKalb have both drawn on their general fund balances but DeKalb ran out of money. Bucks will have about \$55 million at the end of FY2011.

The Cravath report concludes that the city's immediate focus should be on the Act 47 process.

Bucks County Will Not Be the Next Multi-Notch Downgrade

We do not suspect that there is a multi-rating downgrade similar to DeKalb County's in Bucks' future. There are several credit positives that Bucks possesses. Bucks is similar to DeKalb only, with an emphasis on the only, in that there has been a delay since its last rating agency review. The last Moody's analysis on the credit, previous to the recalibration, was in September 2008. It appears that the rating agency must have possessed Dec. 31, 2007 financials. So Moody's (and S&P's) analysis is quite stale. The most recent audited financial statements for Bucks are from December 31, 2009, similar to DeKalb. We were able to get a preliminary picture of Bucks' fiscal situation by reviewing the county's FY 2010 and FY2011 budgets. However, please note that nothing can replace an audited financial statement and a complete fiscal picture of an issuer. We were able to confirm some of our assumptions during a telephone conversation with a Bucks County financial officer. We should note that we were pleased to receive a call-back the same day that we phoned the county.

Bucks is Much Better Off than DeKalb

Bucks drew on general fund reserves to balance budgets over the last three years. The county used about \$10 million of its general fund balance in 2009, \$6 million in 2010 and expects to use an estimated \$8 million in FY2011. DeKalb also ran operating deficits recently. But Bucks' general fund balance is expected to be approximately \$55 million after FY2011, while DeKalb's general fund balance was exhausted. And while Bucks has depended upon its general fund in order to balance its budget over the last few years, the county accumulated the balance in order to supplement spending when times such as this appeared. If ever there was a time to use general fund balances to soften the effects of a recession, the time is now. We should also add that Bucks still has the financial flexibility to raise taxes if needed. Bucks also benefits from a well thought out and detailed financial plan and strong fiscal policies, unlike DeKalb. For example, Bucks has a policy of keeping a balance of at least 10% of their operating budget or about \$40 million in their general fund. So, although Bucks' ratings are a little dated, and we do not have recent audited financial information it looks like Bucks is actually in good shape. **Tom Kozlik**

HARRISBURG, PA - A CITY WITH CHOICES

Cravath Report to City Council Previews Available Financial Alternatives

On March 31, New York law firm Cravath, Swaine & Moore presented a report to the Harrisburg City Council identifying and explaining alternatives the city can consider to address its current financial situation. Cravath is not the only advisor looking at Harrisburg's finances, but the firm agreed to provide pro-bono legal advice and counsel to City Council, members of which have been pushing for exploration of bankruptcy as a solution to the city's financial woes. The 187 page report is extensive, including detailed information on the city's outstanding debt and analyses of potential courses of action.

In review, Harrisburg, the capital city of Pennsylvania, failed to make payments under its guarantee of debt issued for a solid waste resource recovery plant owned by the Harrisburg Authority. Aside from a \$25 million loan from plant operator Covanta, and in addition to the city's guarantee, all of the debt is guaranteed by Dauphin County (NR/AA/NR) and/or Assured Guaranty (AGM) (Aa3/AA+/NR), with a total of \$242 million outstanding. Initially the city covered some payments under the guarantee, but after reserve funds were emptied, the county and AGM covered obligations, giving bondholders an uninterrupted stream of scheduled debt service payments.

Pennsylvania's Act 47 for Distressed Municipalities and Chapter 9 Bankruptcy

Although the Cravath report looks at pros and cons of Chapter 9 bankruptcy filing, it concludes that the city's immediate focus should be on the Act 47 process which began on December 15 when the state designated Harrisburg as a distressed municipality. Act 47, Pennsylvania's program for distressed municipalities, provides for a state chosen coordinator to prepare a plan to address the city's financial problems. In this case the coordinator is actually a team led by the Novak Consulting Group from Cincinnati, OH and includes PA law firm Stevens and Lee, the Pennsylvania Economy League and former PA House Speaker Robert O'Donnell. The group's financial recovery plan is due by June 1. Any solution under Act 47 must be consensual. The city as well as impacted creditors must agree to all elements of any recovery plan.

The Cravath report addresses drawbacks to Chapter 9.

The city's parking facilities were identified as the city's most valuable assets.

Harrisburg must also address long-term structural issues.

Chapter 9 filing is characterized as a last choice solution, although it is noted that it could be a useful bargaining tool for the city in seeking consensual resolution of debt challenges under Act 47. The Cravath report addresses drawbacks to Chapter 9 filing such as expense, expenditure of government time and resources, uncertainty and potential adverse effects on the city's credit.

Financial Alternatives

The report examines potential financial measures including the generation of funds from city assets, renegotiation or refinancing of existing obligations, increases in revenues and reduction of expenses. The two major asset groups with potential for monetization are the resource recovery incinerator plant and the city's Parking Authority assets.

- The Lancaster County (PA) Solid Waste Management Authority recently submitted an unsolicited conditional bid of \$45 million for the plant. Although this is far below the \$242 million outstanding debt (plus \$82 million past due under the city guarantee), it may be an element of a comprehensive plan.
- The city's parking facilities, including 10 garages, 5 lots and 1,200 parking meters, were identified as the city's most valuable assets. An RFP process in 2007 generated three proposals, including a \$215 million offer to lease and operate the parking facilities for 75 years. Because such a transaction would require retirement or defeasance of \$104 million in outstanding parking authority debt, the net proceeds to the city would be about \$111 million. There is no assurance that such an offer will still be available.
- Other assets including the city's water and sewer utilities and sports facilities likely have less value.
- The report made the important point that "reliance on one-time revenue strategies without a concurrent resolution of the core problems presents material risks."

Additional revenue sources might include tax and fee increases. Although there may be incremental income which could be raised, tax increases could be counterproductive, increasing delinquencies and pushing businesses and residents out of an already stressed environment. A commuter wage tax would need legislative support, which might be dicey considering that state legislators work in Harrisburg, thus would be subject to such a tax.

Outstanding bond issues could potentially be refinanced. For example, AGM, which insures most of the incinerator debt, might be willing to provide insurance, and its Aa3/AA+ rating, to bonds issued to refinance and extend maturity, while lowering annual debt service requirements. Since under such a scenario outstanding debt would be defeased, the insurer would take on minimal additional liability. Rather than selling the parking authority assets, it might be possible to refinance the \$104 million of outstanding parking debt and raise additional money, thus leveraging the underlying asset.

A Consensual Approach

The Cravath report makes clear that the best approach for the city is to pursue a plan with which all stakeholders agree. Holders of incinerator bonds would be somewhat insulated from this process, as AGM and Dauphin County would bear the financial brunt of any negotiation which produced less than 100% of debt service payments. The Act 47 coordinator cannot impose a solution. Any resolution would require agreement by the city and other stakeholders. The state has some leverage. It can withhold or extend loans, subsidies and other financial assistance. Chapter 9, on the other hand, need not be consensual, but a key requirement of eligibility for filing under Chapter 9 is that the municipality has made an attempt to achieve consensual resolution of its obligations. It is possible that a pre-packaged solution, with agreement from most or all parties, could go through the Chapter 9 process to address technical matters and gain court approval. A litigated Chapter 9 case would likely be protracted, with results uncertain and not necessarily in the city's best interests.

Act 47 Recovery Plan is the City's Next Step

A plan from the Act 47 coordinator, expected on June 1, is likely the next step in the process of addressing Harrisburg's financial difficulties. Harrisburg has certain significant assets which could be used to generate funds towards meeting its debt obligations, including the incinerator plant and its parking system. Short term, one shot solutions, such as selling or leasing assets, will be important components of any plan, but the city must also address long-term structural issues. Bankruptcy may not be advantageous for the city, and in any case Harrisburg will need to make a good faith effort

Assured Guaranty received good news in the form of an agreement from Bank of America to pay the insurer \$1.1 billion.

Assured is the only municipal bond insurer still writing new business.

Fitch recently suggested a new methodology to rating bond insurers.

to develop a financial plan before considering a Chapter 9 filing. The state's Act 47 process will be on display in coming months, and since Harrisburg is the state capital, we believe the state has a strong interest in assuring the city's ongoing financial solvency. The process will be neither easy nor short, but the city has options. **Alan Schankel**

GOOD NEWS FOR ASSURED GUARANTY

Assured Guaranty received good news in the form of an agreement from Bank of America to pay the insurer \$1.1 billion as recompense for losses incurred on many of the mortgages packaged as mortgage backed securities, and guaranteed by AGM. AGM claimed that the mortgages failed to meet the underwriting standards agreed upon in insurance contracts. Ambac and MBIA are pursuing similar claims, with MBIA expecting to recover as much as \$4.4 billion. According to the Bond Buyer, total claims are between \$11 billion and \$20 billion, mostly from Fannie, Freddie and Federal Home Loan Banks. The cash infusion helps AGM's balance sheet, and the news pushed the stock price as high as \$18.50 the day following the news release with a \$17.60 close, up 24%.

Assured is the only municipal bond insurer still writing new business. S&P cast a cloud over AGM's ability to continue as an active underwriter in January, when it requested comments on a revised methodology for rating insurers which would likely lower the AA+ rating of AGM to the A category, unless AGM raised significant additional capital. An A rating would put into question AGM's value as an insurer, since the majority of issuers they insure are already A or better quality.

Fitch, which stopped rating bond insurers in early 2010, recently suggested that a new methodology to rating bond insurers might combining the insurer's financial strength with that of the underlying issuer. In theory this might mean that an issue with an underlying A rating wrapped with insurance from an A rated company might receive an A+ rating, reflecting the credit strengths of both the municipality and the insurer. Fitch notes the "natural ceiling" for ratings of insurers is A.

Alan Schankel

Summary of the Municipal Insurers' Ratings

Company	Moody's Rating	S & P Rating	Fitch Rating
ACA Financial	Not Rated	Not Rated	Not Rated
Ambac	Caa2	R	Not Rated
Assured Guaranty	On Review for Upgrade	(Regulatory Interv)	
	Aa3	AA+	Not Rated
	Negative Outlook	Stable Outlook	
Assured Guaranty Municipal Corp (Formerly FSA)	Aa3	AA+	Not Rated
	Negative Outlook	Stable Outlook	
Berkshire Hathaway Assurance Corp.	Aa1	AA+	Not Rated
	Stable Outlook	Stable Outlook	
CIFG Assurance North America Inc.	Not Rated	Not Rated	Not Rated
Financial Guarantee Insurance Corp.	Not Rated	Not Rated	Not Rated
MBIA	B3	B	Not Rated
	Negative Outlook	Negative Outlook	
National Public Finance Guarantee Corp. (Formerly MBIA of Illinois)	Baa1	BBB	Not Rated
	Outlook Developing	Outlook Developing	
Radian	Ba1	BB-	Not Rated
	Stable Outlook	Negative Outlook	
Syncora	Ca	R	Not Rated
	Outlook Developing		

Source: Moody's, S&P, Fitch and Janney Fixed Income Strategy.

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Select Recent Rating Outlook and Rating Changes (Apr 18, 2011)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
United States	US	S&P outlook to negative from stable	18-Apr-2011	Aaa/AAA/AAA	Uncertainty of financial profile
Drexel University	PA	S&P downgraded to A from A+	15-Apr-2011	A	Debt and weak balance sheet
Cleveland Ltd Tax GO	OH	Fitch downgraded to A+ from AA-	12-Apr-2011	A+	Lower tax revenues
San Francisco (City of)	CA	Fitch downgraded to AA- from AA	12-Apr-2011	AA-	Budget gaps & lower reserves
Mayo Clinic	MN	S&P upgraded to AA from AA-	11-Apr-2011	AA	Improved financial performance
Loyola University	IL	Moody's Watchlist for possible upgrade	8-Apr-2011	A3/A	Trinity and Loyola Health merger
Philadelphia University	PA	Moody's raised outlook to stable from negative	8-Apr-2011	Baa2/BBB	Market position and performance
Kansas (State of)	KS	Moody's outlook to negative from stable	6-Apr-2011	Aa1/AA+	Worsening structural imbalance
Pittsburgh (City of)	PA	S&P lowered outlook to negative from stable	1-Apr-2011	A1/BBB/A	Pension pressures
Hamot Medical Center	PA	Moody's upgraded to Aa3 from Baa1	31-Mar-2011	Aa3	Take-over by UPMC
Univ. Pitts. Medical Cent.	PA	Moody's outlook to positive from stable	31-Mar-2011	Aa3	Top not for profit health care
Providence (City of)	RI	S&P downgraded to BBB+ from A	30-Mar-2011	BBB+	Worsening financial perform
Kentucky (State of)	KY	Moody's downgraded to Aa2 from Aa1	30-Mar-2011	Aa1/AA-/AA	Pension funding concerns
Idaho (State of)	ID	S&P upgraded to AA+ from AA	30-Mar-2011	Aa1/AA+/AA-	Strong reserves
Oakland (City of)	CA	S&P raised outlook to stable from negative	30-Mar-2011	AA-	Improving financials
DeKalb (County of)	GA	S&P downgraded to BBB from AA-	28-Mar-2011	Aa3/With	Downgraded and withdrew
Denver Airport	CO	Moody's lowered outlook to negative	28-Mar-2011	A1	Debt heavy capital plan
Philadelphia (City of)	PA	S&P raised outlook to positive from stable	25-Mar-2011	A2/BBB/A-	Reversal of recessionary trends
Dallas Love Field Airport	TX	S&P upgraded to A from BBB+	25-Mar-2011	A	Strong liquidity and low debt
Nevada (State of)	NV	Moody's downgraded to Aa2 from Aa1	23-Mar-2011	Aa2/AA/AA+	Lower real estate and tourism
Howard University (DC)	DC	Moody's outlook to negative from stable	18-Mar-2011	A3	Financial pressures
Villanova University	PA	S&P upgraded to A+ from A	16-Mar-2011	A+	Strong financial operations
Providence (City of)	RI	Moody's downgraded to A3 from A1	15-Mar-2011	A3	Worsening financial perform
Nevada (State of)	NV	S&P downgraded to AA from AA+	10-Mar-2011	Aa2/AA/AA+	Lower real estate and tourism
Puerto Rico	PR	S&P upgraded to BBB from BBB-	6-Mar-2011	A3/BBB/BBB+	Improved revenues

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

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State and Other Select Issuer Ratings (Apr 18, 2011)

State	Moody's			S&P			Fitch		
	Rating	Outlook	Last	Rating	Outlook	Last	Rating	Outlook	Last
Alabama	Aa1	Stable	4/16/2010	AA	Stable	8/3/2007	AA+	Stable	5/3/2010
Alaska	Aaa	Stable	11/22/2010	AA+	Stable	3/27/2008	AA+	Stable	4/5/2010
Arizona (*)	Aa3	Negative	2/9/2011	AA-	Negative	5/25/2010	NR	-	-
Arkansas	Aa1	Stable	4/16/2010	AA	Stable	1/10/2003	NR	-	-
California	A1	Stable	4/16/2010	A-	Negative	1/14/2010	A-	Stable	4/5/2010
Colorado (*)	NR	-	-	AA	Stable	7/10/2007	NR	-	-
Connecticut	Aa2	Stable	4/16/2010	AA	Stable	9/26/2003	AA	Stable	6/3/2010
Delaware	Aaa	Stable	-	AAA	Stable	2/22/2000	AAA	Stable	4/13/2006
Dist. of Columbia	Aa2	Stable	4/16/2010	A+	Stable	6/6/2007	AA-	Stable	4/5/2010
Florida	Aa1	Stable	4/16/2010	AAA	Negative	1/14/2009	AAA	Negative	4/5/2010
Georgia	Aaa	Stable	-	AAA	Stable	7/29/1997	AAA	Stable	4/13/2006
Hawaii	Aa1	Negative	4/16/2010	AA	Stable	1/29/2007	AA+	Negative	4/5/2010
Idaho (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/30/2011	AA-	Stable	2/13/2007
Illinois	A1	Negative	9/23/2010	A+	Negative	12/10/2009	A	Negative	6/11/2010
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 (*)	Aa1	Negative	4/6/2011	AA+	Stable	5/20/2005	-	-	-
Kentucky (*)	Aa2	Negative	3/30/2011	AA-	Stable	6/23/2009	AA	Negative	4/5/2010
Louisiana	Aa2	Stable	4/16/2010	AA-	Stable	10/9/2009	AA	Stable	4/5/2010
Maine	Aa2	Stable	4/16/2010	AA	Negative	3/10/2010	AA+	Stable	4/5/2010
Maryland	Aaa	Stable	-	AAA	Stable	5/7/1992	AAA	Stable	4/13/2006
Massachusetts	Aa1	Stable	4/16/2010	AA	Positive	2/10/2011	AA+	Stable	4/5/2010
Michigan	Aa2	Stable	4/16/2010	AA-	Stable	5/22/2007	AA-	Stable	4/5/2010
Minnesota	Aa1	Stable	4/16/2010	AAA	Stable	7/24/1997	AAA	Stable	4/5/2010
Mississippi	Aa2	Stable	4/16/2010	AA	Stable	11/30/2005	AA+	Stable	4/5/2010
Missouri	Aaa	Stable	-	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	AA+	Stable	10/11/2006	NR	-	-
Nevada	Aa2	Negative	3/23/2011	AA	Stable	3/10/2011	AA+	Stable	4/5/2010
New Hampshire	Aa1	Stable	4/16/2010	AA	Stable	12/4/2003	AA+	Stable	4/5/2010
New Jersey	Aa2	Negative	9/23/2010	AA-	Stable	2/9/2011	AA	Stable	4/5/2010
New Mexico	Aaa	Stable	4/16/2010	AA+	Stable	2/5/1999	NR	-	-
New York	Aa2	Stable	4/16/2010	AA	Stable	9/14/2004	AA	Stable	4/5/2010
North Carolina	Aaa	Stable	1/12/2007	AAA	Stable	6/25/1992	AAA	Stable	4/13/2006
North Dakota (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/17/2009	NR	-	-
Ohio	Aa1	Negative	4/16/2010	AA+	Negative	9/23/2009	AA-	Stable	4/5/2010
Oklahoma	Aa2	Stable	4/16/2010	AA+	Stable	9/5/2008	AA+	Stable	4/5/2010
Oregon	Aa1	Stable	4/16/2010	AA	Stable	8/23/2007	AA+	Stable	4/5/2010
Pennsylvania	Aa1	Negative	4/16/2010	AA	Stable	11/6/1998	AA+	Negative	5/14/2010
Puerto Rico	A3	Negative	8/10/2010	BBB	Stable	3/6/2011	BBB+	Stable	1/19/2011
Rhode Island	Aa2	Stable	4/16/2010	AA	Negative	3/9/2009	AA	Negative	4/5/2010
South Carolina	Aaa	Stable	3/23/2007	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
South Dakota (*)	A1	Stable	-	AA	Stable	12/21/2006	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	4/16/2010	AA+	Stable	10/12/2006	AAA	Stable	4/5/2010
Texas	Aaa	Stable	4/16/2010	AA+	Stable	8/10/2009	AAA	Stable	4/5/2010
Utah	Aaa	Stable	-	AAA	Stable	6/7/1991	AAA	Stable	4/13/2006
Vermont	Aaa	Stable	2/2/2007	AA+	Stable	9/11/2000	AAA	Stable	4/5/2010
Virginia	Aaa	Stable	5/27/2004	AAA	Stable	11/11/1992	AAA	Stable	4/13/2006
Washington	Aa1	Stable	4/16/2010	AA+	Stable	11/12/2007	AA+	Stable	4/5/2010
West Virginia	Aa1	Stable	7/9/2010	AA	Stable	8/21/2009	AA	Positive	4/5/2010
Wisconsin	Aa2	Stable	4/16/2010	AA	Stable	8/15/2008	AA	Stable	4/5/2010
Wyoming (*)	NR	-	-	AA+	Stable	6/30/2008	NR	-	-

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

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Municipal Credit Rating Scale and Definitions

	Rating Agency			Definition
	Moody's	S&P	Fitch	
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.

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Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
Pennsylvania Debt Overview	April 6, 2011	Note	Review of GO and Revenue programs
Diversify Across States	March 29, 2011	Note	Benefits outweigh the costs
Philadelphia Please Touch Museum	March 3, 2011	Credit	This credit should not be considered investment grade
Protests Have Not Spooked Investors	February 28, 2010	Monthly	Showed signs of recovery & state stress overblown
Connecticut- Overview of Debt	February 23, 2010	Credit	Four CT Bond Issuance Programs
Muni Market Turmoil Equals Opp.	January 24, 2011	Note	Includes investor strategies for the market
Au Revoir to BABs, Concerns Overblown	January 14, 2011	Monthly	BABs not Renewed, we expect headline risk in 2011
States' Ability/Will to Pay is Strong	January 10, 2011	Note	Includes State Fiscal Health Scorecard
SF Housing Bonds are Attractive	January 3, 2011	Note	Wider spreads, housing indicators and strong credit
Tobacco Sector Upgrade	December 21, 2010	Note	We raised our outlook on MSA payment-backed bonds
No Looming Municipal Crisis	December 21, 2010	Note	Suggestions of stress have been overblown
Munis Attractive, Credit Pressures	December 20, 2010	Outlook	Mixed performance, mixed messages and metaphors
North Shore Long Island Health	December 9, 2010	Credit	Dominant provider in its area is rated Baa1/A-/A-
Tobacco Bonds	December 6, 2010	Note	Downgrades and lower consumption, IL Railsplitter
Inexpert Advice Continues	December 6, 2010	FI Weekly	Doomsday forecasts persist
For-Profit Entities TE Debt	November 19, 2010	Note	Private companies sometimes sell tax-exempt debt
Heavy New Issue Supply	November 18, 2010	Note	Municipal yields moved sharply higher
BABS Last Year? Marcellus Shale	November 12, 2010	Monthly	Odds of BABs at 50% and local govt sector review
Muni Bond Insurance Update	November 3, 2010	Note	The end of the AAA era- Assured downgraded
PA Turnpike	October 5, 2010	Credit	New Special Sub debt maintains Aa3/NR/AA ratings
State Taxes Were Stronger	September 21, 2010	Monthly	Harrisburg side-stepped a default and NJ charged
Brethren Village, PA	August 30, 2010	Credit	A PA CCRC with lower than expected occupancy
Tobacco Sector and PA Act 47	August 13, 2010	Monthly	We lowered our tobacco outlook and explain PA Act 47
NYC TFA	July 22, 2010	Credit	Bondholders have first priority, 10x dsc
Harrisburg Update	July 15, 2010	Note	Officials are addressing the city's weak finances
The Truth Shall Set You Free	July 14, 2010	Monthly	Municipal Myths and Truths
The Front of the Line	July 7, 2010	Note	New types of bonds with enhanced security
Detroit- Dist. State Aid	July 7, 2010	Credit	Details the strong security mechanism
COFINA	June 29, 2010	Credit	Strongest of the Puerto Rico credits
Factors Stressing the MBM	June 15, 2010	Note	There is not going to be a "Municipal Meltdown"
Battle Uncertainty with Diver.	June 7, 2010	Monthly	Battle uncertainty, CA will not be the next Greece
Harrisburg Update	April 30, 2010	Note	Harrisburg May 1, 2010 payment will not be made
CIFG Insurance	April 30, 2010	Note	Details of CIFG insured bonds remain uncertain
DC Ballpark	April 22, 2010	Credit	DC Ballpark possesses strong ds coverage
In Like a Lamb Out Like	April 9, 2010	Monthly	Health-care reform impact mixed; Rtg's recalibration
Moody's Rating Changes	March 17, 2010	Note	Moody's ratings may be "recalibrated" higher
Historical Defaults are Low	March 5, 2010	Monthly	Low Ratios; Exaggerated risk of defaults and Chp 9
Montgomery County, PA	March 3, 2010	Credit	One of the handful of Aaa rated PA issuers
Pitt. & Allgh. Hotel Tax	March 3, 2010	Credit	Review of the Hotel Room Excise Tax Rev Bonds
Recession Weakens States	February 12, 2010	Monthly	IL, NJ, NY, RI, CA & PR experiencing fiscal stress
Harrisburg Update	February 4, 2010	Note	City Council reviewing options including bankruptcy
Miami-Dade County	January 20, 2010	Note	S&P lower its outlook to negative from stable
2010 Municipal Outlook	January 1, 2010	Outlook	Expectations for 2010 in the municipal market
2009 Municipal Review	December 1, 2009	Review	Review of municipal market in 2009
New Jersey Tobacco	December 9, 2009	Credit	Tobacco Settlement Asset-Backed Bonds
Long Island Power Auth	October 19, 2009	Credit	Credit will remain strong in the near term
Miami-Dade County	October 15, 2009	Credit	Stress in short intermediate term
Hackensack U Med Center	October 8, 2009	Credit	Some near term questions
Review of 1H 2009	September 29, 2009	Note	A "New Normal" municipal market
Insured Bond Review	September 18, 2009	Note	Your insured bonds may now be unrated
E. Stroudsburg, PA Stu Hsg	August 31, 2009	Credit	Low cost, high qual ed should secure enrollment
Municipal Insurer Update	August 19, 2009	Note	Only four insurers are rated above invest grade

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.

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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

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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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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