

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

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Municipal rates are nowhere near all time U.S. historical lows.

Many databases do not show data before 1990; therefore, the market's earlier experience is often forgotten.

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Dispelling the "Low Rate" Environment Myth

- Municipal yields have not reached, "All time market lows." In fact, municipal yields are just below the 200 year average of 4.65%.
- The future interest rate environment is likely to be closer to the historical average than to the 7.50% average the market saw in the 1980s and 1990s.
- Janney suggests investors not wait for interest rates to increase before committing capital to high quality municipal bond investments.

INVESTORS HAVE SHORT MEMORIES

It makes me cringe every time I read an author who tries to convey the idea that current municipal market yields have, "Reached or fallen below all-time lows." News flash: municipal rates are nowhere near all time U.S. historical lows. For that to occur the long bond would have to come in close to 1.50%, last seen in 1945. That is 262 basis points lower than the 4.12% of the Nov 2011 Bond Buyer 20 Bond Index. So, municipal rates have a long way to drop before they are even close to dropping near historical lows.

Why Does Everyone Think the Municipal Market is at a Low?

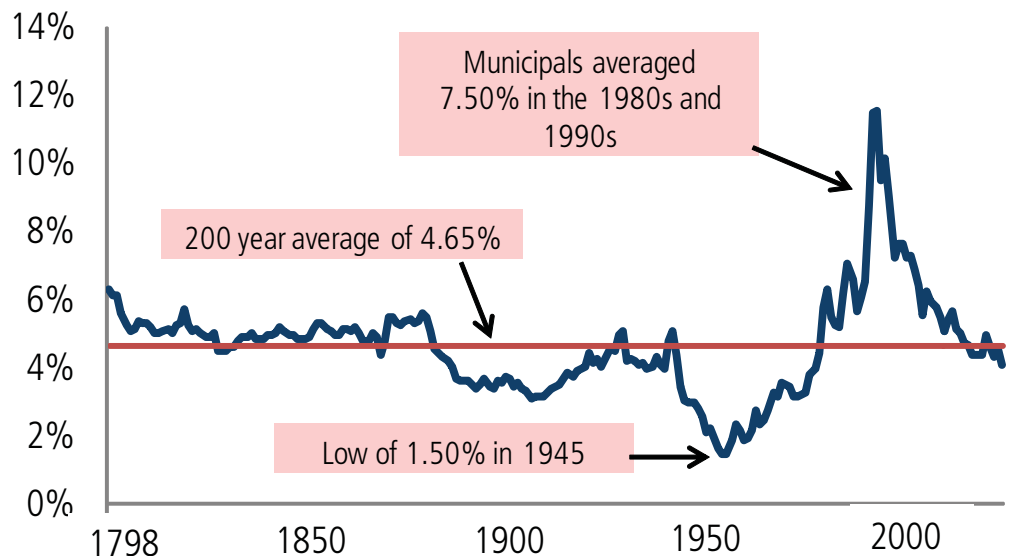
There are two basic explanations for this:

- The market's gradual fall from the elevated levels of the 1980s and 1990s makes it seem like the current altitude is the bottom.
- Many databases do not show data before 1990; therefore, the market's earlier experience is often forgotten.

Janney Recommendation

We recommend investors take action and invest in high quality or other suitable municipal bonds because current market levels are not as low as many believe.

Municipal Market Yields are Not Near All-Time Market Lows



Source: New England municipal yields between 1798 to 1899 from Sidney Homer's, "A History of Interest Rates." Data between 1900 to 2011 from the Bond Buyer.

Analyst Certification

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