

MUNICIPAL BOND MARKET MONTHLY

JANNEY FIXED INCOME STRATEGY

July 6, 2011



CONTENTS	PAGE
MID-YEAR REVIEW	1
NJ PENSION AGREEMENT	5
DEMANDS OF PENSIONS	5
"CONDUIT" IS NOT A DIRTY WORD	6
JANNEY MUNI SECTOR UPDATE	7
HARRISBURG, PA UPDATE	8
MARKET COMMENTARY	10
SELECT RATING CHANGES	12
STATE ISSUER RATINGS	13
MUNICIPAL RATING DEFINITIONS	14
JANNEY MUNICIPAL PUBLICATIONS	15
DISCLOSURE	16

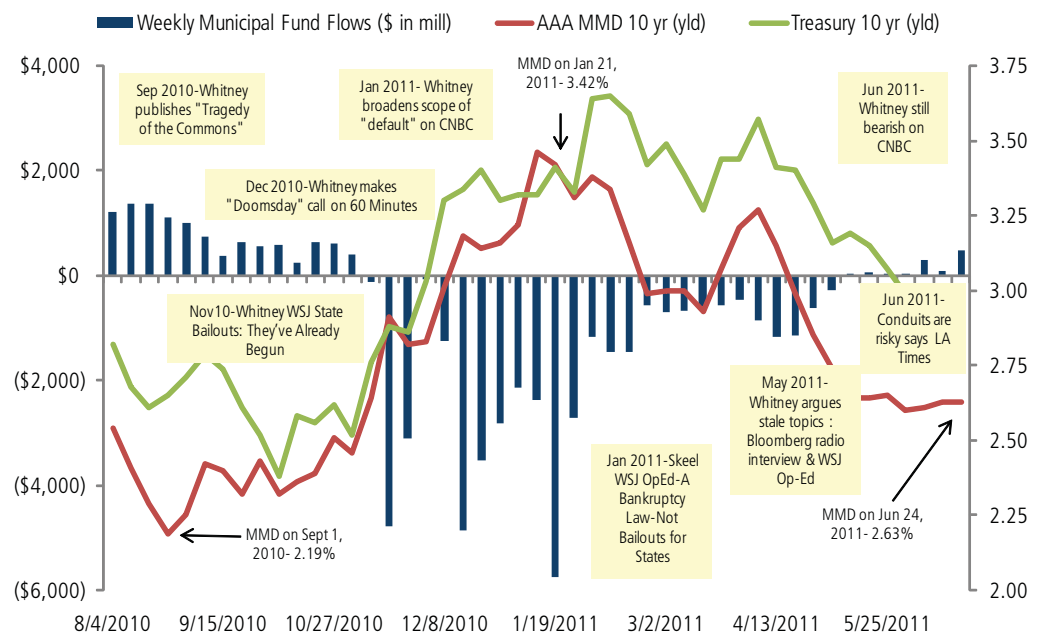
Municipals Six Months After Whitney's Doomsday Prediction and "Conduit" is NOT a Dirty Word

- We provide a mid-year review of technical indicators such as yields, M/T Ratios and volume.
- State and local governments remain willing and able to pay debt service and default statistics show Meredith Whitney's prediction looks significantly overstated.
- "Conduit" is not a dirty word. We recommend investors rely on underlying credit quality.
- We remain "Cautious" on the municipal tobacco bond sector but believe the worst is behind us.
- There is a long process in store for Harrisburg, PA and while it is developing in the right direction politics may introduce volatility along the way.
- Municipals were strong in June, with little difficulty absorbing increased new issue volume and yields moved higher towards the end of the month.
- Connecticut's outlook lowered; Hawaii downgraded by Fitch; New York's outlook raised by Fitch; Miami, FL was dropped two notches by S&P and Central Falls, RI downgraded further.

MID-YEAR MUNICIPAL MARKET REVIEW

In this July edition of Janney's Municipal Bond Market Monthly we reflect on the condition of the municipal market now, at the beginning of July 2011, versus the mood from the start of the year. The contrast in temperament between now and just six months ago is exceptional. It seems like headline risk, or negative (inaccurate in many cases) media attention was probably at its height between Dec 2010 and Feb 2011, though reminders occasionally resurface. Toward the end of 2010 and the beginning of 2011 the market was experiencing the Meredith Whitney effect, responding to superfluous calls for a state bankruptcy option, reacting to inquiries from Washington DC, and fighting

Several Factors Affected Performance, Including Headline Risk



Source: ICI, Thomson Reuters and Janney Fixed Income Strategy.

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The market's negative tone was so troublesome in January that we published a special note titled, "States' Ability and Willingness to Pay Debt Service Remains Strong."

Headline risk likely influenced some selling, more toward the beginning of the year, especially at the retail level.

2 and 30 year M/T Ratios are attractive compared to historical averages but have fallen compared to June 1.

through general anxiety concerning state and local governments' ability to control spending or increase revenues while balancing budgets. We remind investors that the negative fervor was so troublesome that we even felt it necessary to calm investors by publishing a special Municipal Market Note titled, "States' Ability and Willingness to Pay Debt Service Remains Strong."

Market Performance- Yields Fall With Treasuries Despite Headline Risk

Tax-exempt yields as represented by Municipal Market Data's (MMD) AAA general obligation scale have consistently trended downward since the beginning of 2011 after a period between Sept 1, 2010 and January 21, 2011 when the ten year MMD yield increased a phenomenal 123 basis points from 2.19% to 3.42%. The late 2010 run up was due to several factors, mostly technical, including QE2- the Federal Reserve's quantitative easing program (Nov 2010), a fiscally conservative fever left over from the Nov 2010 elections, questions about the extension of the Bush tax-cuts, record negative fund flows, and the build-up of an extraordinary year-end municipal primary market calendar. A strong amount of headline risk, mostly from former banking analyst Meredith Whitney, starting at the end of 2010 with her infamous Dec 60 Minutes doomsday prediction continues to haunt the market into June 2011. This likely influenced some selling, more toward the beginning of the year, especially at the retail level because of overstated credit concerns.

AAA Municipal Market Data Yields Have Fallen Since January

Date	1 Year	3 Year	5 Year	7 Year	10 Year	20 Year	25 Year	30 Year
3-Jan-11	0.37	1.05	1.73	2.37	3.21	4.47	4.66	4.68
1-Feb-11	0.37	1.11	1.87	2.52	3.34	4.57	4.75	4.79
1-Mar-11	0.38	1.06	1.76	2.28	2.96	4.26	4.65	4.70
1-Apr-11	0.32	1.00	1.80	2.47	3.21	4.36	4.74	4.80
2-May-11	0.30	0.88	1.50	2.14	2.85	4.13	4.52	4.58
1-Jun-11	0.25	0.73	1.20	1.91	2.62	3.87	4.21	4.26
1-Jul-11	0.23	0.69	1.28	2.02	2.76	3.94	4.30	4.36
Jan to Jul chge	(0.14)	(0.36)	(0.45)	(0.35)	(0.45)	(0.53)	(0.36)	(0.32)

Source: Thomson Reuters and Janney Fixed Income Strategy.

Some M/T Ratios are Very Favorable Toward Municipals

Municipal to Treasury Ratios (M/T Ratios), are a primary relative value indicator for the municipal bond market and they remain mostly attractive, especially in the short and long end of the yield

AAA Municipal Market Data Yields Have Fallen Since January

Date	2 Year	5 Year	10 Year	30 Year
3-Jan-11	120%	86%	97%	107%
1-Feb-11	116%	92%	97%	104%
1-Mar-11	108%	83%	87%	105%
1-Apr-11	85%	80%	93%	107%
2-May-11	92%	77%	87%	105%
1-Jun-11	96%	75%	88%	103%
1-Jul-11	93%	74%	87%	99%
6 Month Avg.	98%	81%	90%	104%
5 Year Avg.	96%	89%	92%	104%
Historical 90-11	75%	77%	82%	90%

Source: Thomson Reuters and Janney Fixed Income Strategy.

curve. Municipal AAA MMD yields have fallen as Treasuries continue their downward trend but municipal yields have not fallen as steeply as Treasuries. The 2 Year M/T Ratio, 93% as of Jul 1, 2011 is well above its historical average of 75%. The 30 Year Ratio, 99%, is also cheap relative to its 90% historical average. However, all M/T Ratios have fallen below recent, 6 month and 5 year averages.

For 2011, we expect annual volume to come in between \$250 billion and \$275 billion for the year, the lowest since annual volume in 2000.

We do not expect volume levels to return to above average until after 2013, even under the most optimistic scenario.

Issuance volume has historically fallen during different economic cycles or during other disrupting periods.

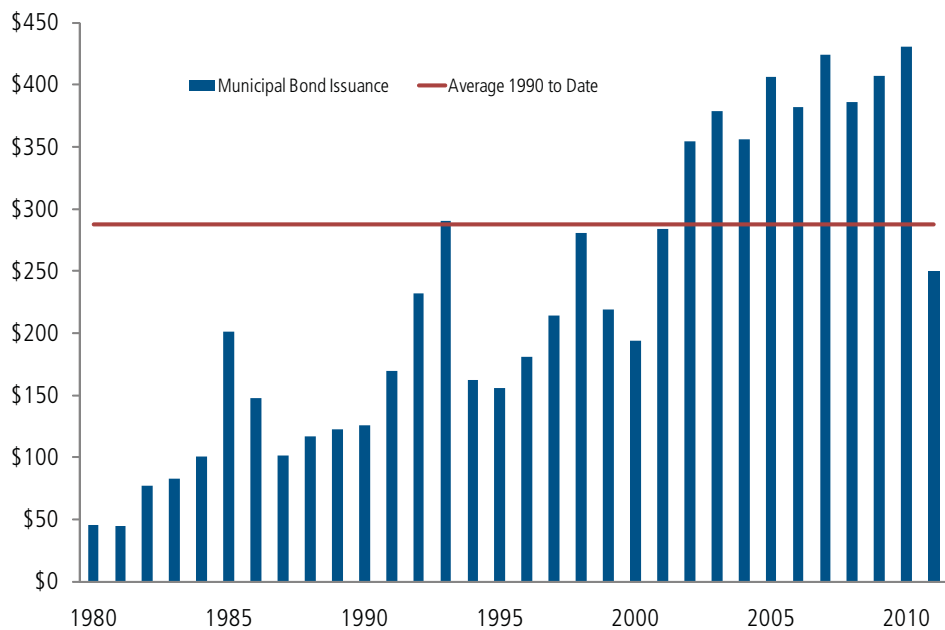
Municipal New Issue Volume Will Likely Recover, Just Not in 2011 or 2012

Long term municipal issue volume has been near lows on a monthly basis all year and total mid-year volume for 2011 was only \$113 billion, down from \$205 billion through June 2010. Demand for borrowing has slowed to recent depressed levels due to several factors. Numerous federal programs (such as BABs and expanded bank-qualification) ended at the close of 2010 and are no longer available. This affected volume in two ways. First, issuers accelerated issuance at the end of 2010 to take advantage of those programs, when possible. And in some cases new debt is not as attractive now because those subsidies are no longer available further limiting supply. Additionally, ongoing government budget negotiations are not allowing borrowing for new projects just yet and some political actors' anti-spending attitudes are posing as obstacles. These variables could also likely continue into calendar year 2012. For 2011, we expect annual volume to come in between \$250 billion and \$275 billion for the year, the lowest since annual volume in 2000. The total annual volume for 2011 in the bar graph below indicates our \$250 million expectation compared to historical annual volume. While we have commonly been thinking that issuance may pick up in the last half of 2011, this annual volume expectation seems to be adjusted downward every few months or so.

What Do We Expect For Volume In the Near Term?

Average annual issuance has been about \$287 billion since 1990. We do not expect volume levels to come in well above this historical average until an economic recovery takes hold, a process that is difficult to predict but now looks like will not occur until at least the end of 2012 or 2013 even under the most optimistic expectations. We are, however, optimistic that municipal volume will recover,

Long Term Bond Issuance - U.S. Municipals



Source: Securities Data Corporation and Janney Fixed Income Strategy.

despite the recent lull. Issuance volume has historically fallen periodically during different economic cycles or during other disrupting periods. Issuance fell in 1987, but then picked up after the early 1990s recession. Issuance was again below average in 1994 and 1995 and again recovered in the late 1990s before it swooped down again in 1998 and 1999. Many factors influence total issuance but none as strongly as the availability of insurance and the increased use of variable rate bonds and derivatives from 2002 to 2010. The utilization of these financial tools likely inflated issuance during this period, making decreased issuance now seem much lower. But, issuance will rebound again when governments get spending and budgets under control and broader economic forces rebound.

Extreme credit concerns have subsided but Moody's and Fitch rating trends have continued to be generally negative during the first half of 2011.

Suggestions of factors stressing the municipal market were excessively overblown during Meredith Whitney's prediction of 50-100 sizeable defaults amounting to hundreds of billions of dollars.

None of the 2011 defaults have been state or local government general obligation bonds.

Mid-Year Credit Review

State and Local Governments Remain Willing and Able to Pay Debt Service

Concerns and anxiety surrounding state and local government credit have decreased in recent months. This is mostly because almost all emerging figures have been more positive than expected, from a credit perspective. State governments have reported five consecutive quarters of higher revenues. State level budget negotiations have generally resulted in reduced spending or revenue increases (higher taxes) when necessary. It has been surprising that tactics from budget negotiations have not provided more political theater and while this is a surprise it is certainly welcome. While some state government cuts are being pushed down to local governments, we are seeing local governments making budget adjustments in order to absorb the reductions. Most importantly, we are not seeing government defaults or bankruptcies. We should note however, that rating trends reported by Moody's and Fitch are still generally negative among most municipal sectors. See "A Stealth Recalibration," in Janney's June 6th FI Weekly for more about rating trends.

Whitney's Prediction Looks Significantly Overstated

We would be remiss if we did not recount the mother-load of recent municipal market headline risk provided by former banking analyst Meredith Whitney, currently the head of the Meredith Whitney Advisory Group. To review, Whitney, during a December, 2010 "60 Minutes" interview overreached and made an imprudent prediction about local government credit quality. After a brief discussion about the events surrounding the over-indebted Harrisburg, PA, which itself is an outlier, Whitney referenced that she thought states would be able to honor their debts but that local governments would get squeezed and not be able to honor their debt service obligations. She specifically said, "There's not a doubt in my mind that you will see a spate of municipal bond defaults... You could see 50 sizeable defaults. Fifty to 100 sizeable defaults. More. This will amount to hundreds of billions of dollars' worth of defaults."

We attempted to set the record straight immediately after Whitney's unforgettable forecast in a Dec 21, 2010 Janney Municipal Bond Market Note titled, "There is Not a Looming Municipal Market Crisis, Although Many Factors are Stressing Issuers." In the note we reviewed the several stresses we saw facing local governments but did not believe exposure to the stresses would result in 50 to 100 high profiles defaults. Statistically, almost every single large city in the United States would have

Municipal Bond Default Summary

Year	Number of Issues	Par Amount (\$ in millions)
2011	16	\$642
2010	89	\$3,195
2009	218	\$8,308

Source: Income Securities Ad. as of May 31, 2011 and Janney FIS.

bonds. The majority of the defaults are land secured bonds, and also include bonds from other riskier sectors such as retirement homes and corporate backed and other types of ind. dev. bonds.

What Do We Expect Overall From Municipals For the Rest of 2011?

Now questions remain about what will be driving municipals for the remainder of 2011. We expect that it will be a little of everything including, traditional drivers, such as: 1) overall economic performance, 2) direction of the housing market, 3) Treasuries and M/T Ratios 4) primary market municipal volume, 5) headline risk, 6) 2012 elections and local politics, and 7) state and local government credit perception and results.

Janney Municipal Recommendation

We still recommend retail investors build their portfolios with strong quality general obligation, essential service and other credible revenue bonds. Very strong quality should be considered at least in the "AA" category. Bonds in the "A" rating class can be considered investment worthy but should be reviewed thoroughly to determine suitability.

to default for her prediction to come true and that is just not realistic. Turns out that her prediction is in no way shaping up to be as sizable as forecast. As a matter of fact it has been completely wrong to date. Overall, municipal bond defaults as a whole are lower in 2011 than in 2010.

Most significantly though, is that none of the 2011 defaults have been state or local government general obligation

We still recommend retail investors build their portfolios with strong quality general obligation, essential service and other credible revenue bonds.

A recent positive development in New Jersey should help strengthen the state's credit profile as related to its pension plan for teachers and public sector employees.

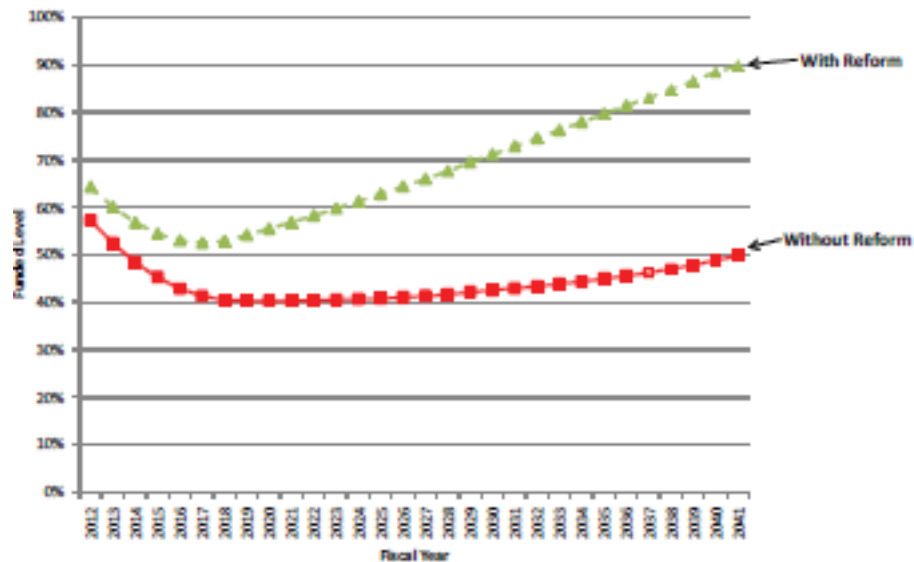
Almost \$1,400 dollars a year over the next 30 years is what it is going to cost each individual taxpayer to pay public employee pension promises.

While we know many investors are stretching for yield we do not recommend extending too far out on the credit spectrum unless investors completely understand all credit and security details. Investors should also keep in mind that a municipal bond sold through a conduit is not necessarily subject to elevated risk because of the conduit. The risk comes from the borrower or obligor and the underlying security. For more on the subject of why "conduit" is not a dirty word please see the following page. **Tom Kozlik**

NEW JERSEY AGREEMENT EXPECTED TO FIRM STATE PENSION FUNDING

A recent positive development in New Jersey should help strengthen the state's credit profile as related to its pension plan for teachers and public sector employees. The New Jersey Senate and Governor Chris Christie approved legislation recently that is forecast to improve the state's pension funding ratio to 90% by 2041. A Pew study recently reported NJ's pension funding ratio at only 66%, well under the U.S. Government Accountability Office's "advisable" 80% percent funding threshold. We should note that this development was likely not considered in the recent Novy-Marx and Rauh study. Largely, the changes will lower overall benefits for new employees and require current employees to pay more. The legislation requires current teachers and public employees to pay an additional 1% toward retirement with an additional 1% to be phased in over the next seven years. Funding changes also raise the retirement age for new teachers and public sector employees to 65, and eliminate cost of living adjustments for current retirees, an action which may be reversed if funding goals are met. **Tom Kozlik**

NJ's Funded Ratio Expected to Improve to 90% by 2041 Under Reforms



Source: The Governor's FY2012 Budget Proposal, Feb. 22, 2011 and Janney FIS.

THE REVENUE DEMANDS OF PUBLIC EMPLOYEE PENSION PROMISES

Almost \$1,400 dollars a year over the next 30 years is what it is going to cost each individual taxpayer to pay public employee pension promises according to, "The Revenue Demands of Public Employee Pension Promises," a recent study by University of Rochester's Robert Novy-Marx and Northwestern's Joshua Rauh. The academics studied approximately 200 state and local government pensions in the review to calculate the required increases in state and local funding that would be required to achieve full pension funding over the next 30 years.

What About Possible Solutions?

Is there a solution? Shifting all new public employees to defined contribution plans only saves about \$200 per household. A "hard-freeze" of all benefits saves \$600, but still would require taxpayers to foot the bill of about \$800 a month per household. "Basically, state and local governments have to choose among the options of raising taxes or reducing expenditures on other things in order to keep

“The question is not at what age I want to retire, it’s at what income.”
— George Foreman

We expect the recent changes to the NJ plan to strengthen the rating agencies’ views on New Jersey.

Conduit financings are very common in the tax-exempt area and do not necessarily indicate an issue of low or non-investment grade credit quality.

pension systems in place,” said Rauh according to the Bond Buyer. The report shows a broad spectrum of state responsibility, “At one extreme, New Jersey would need to raise an additional \$2,475 per household not assuming the recent plan adjustment, which amounts to 1.7% of GSP. At the other extreme, Indiana requires increases of only \$329 per household or 0.3% of total own revenue,” per the pension examination.

Required Increases for Full Funding by State, Assumes No Policy Change

Rank	State	Required Contribution Increase		Ratings			Pew Pension Funding %
		% of GSP	Per Hshld	Moody's	S&P	Fitch	
1	New Jersey	1.7%	\$2,475	Aa3	AA-	AA	66%
2	New York	1.5%	2,250	Aa2	AA-	AA	101%
3	Oregon	1.9%	2,140	Aa1	AA+	AA+	86%
4	Wyoming	1.2%	2,080	NR	AAA*	NR	89%
5	Ohio	1.9%	2,051	Aa1	AA+	AA+	66%
8	California	1.5%	1,994	A1	A-	A-	81%
12	Illinois	1.5%	1,907	A1	A+	A	51%
12	Pennsylvania	1.4%	1,550	Aa1	AA	AA+	81%
40	Florida	0.8%	813	Aa1	AAA	AAA	84%

Source: Novy-Marx and Rauh, Table 5 page 40; rating agencies; Pew and Janney FIS. * is ICR or lease rating.

Janney Observation About Pension Burdens

While we have steadily observed that public sector pension liabilities are a medium to long to issue and they are not going to result in state non-payment of bond debt service in the near term, we should not discount the negative credit affects pension burdens have had on state credit ratings, especially recently. Particularly in states such as Illinois, New Jersey and Puerto Rico where the rating agencies have cited during recent rating’s warnings or downgrades that the actions were directly (negatively) affected by building pension burdens or states unwillingness to fully fund annual pension payments. We expect the recent changes to the NJ plan to strengthen the rating agencies’ views on New Jersey. **Tom Kozlik**

“CONDUIT” IS NOT A DIRTY WORD

There seems to be some misunderstanding or misstatements regarding the credit and risk underlying a common type of financing in the municipal finance universe called “conduit financing.” We are concerned investors will take facts presented in a June 14 LA Times article the wrong-way, for example. The article stated, “Although conduits account for roughly 20% of all municipal bonds, they have been responsible for about 70% of all defaults in the municipal bond market in recent years...” While this detail might very well be factual, it is somewhat misleading and we do not want investors to immediately shun conduit financings. Conduit financings are very common in the tax-exempt area and do not necessarily indicate an issue of low or non-investment grade credit quality.

Examples of Recent Conduit Financings

State	Rating(s)	Conduit	Borrower/Obligor
PA	NR/BBB-	Phila Auth for Ind Dev	W. Phil Achievement Charter School
NC	Not Rated	NC Med Care Comm	Whitestone CCRC
MA	Aa2/AA	MA Dev Finance Agency	Partners Healthcare System
NY	Baa1/A-	NY Environ Facil Corp.	United Waterworks (Corp. IOU)
NY	NR/AA	NY Liberty Dev Corp	One Bryant Park LLC (Bank of A Tower)
NY	Aa1/AA	Dorm Auth St of NY	Cornell University

Source: Moody’s, S&P, Bloomberg, official statements and Janney FIS.

A conduit does not secure bond payments; it is simply acting as an intermediary between the bond market and the obligor.

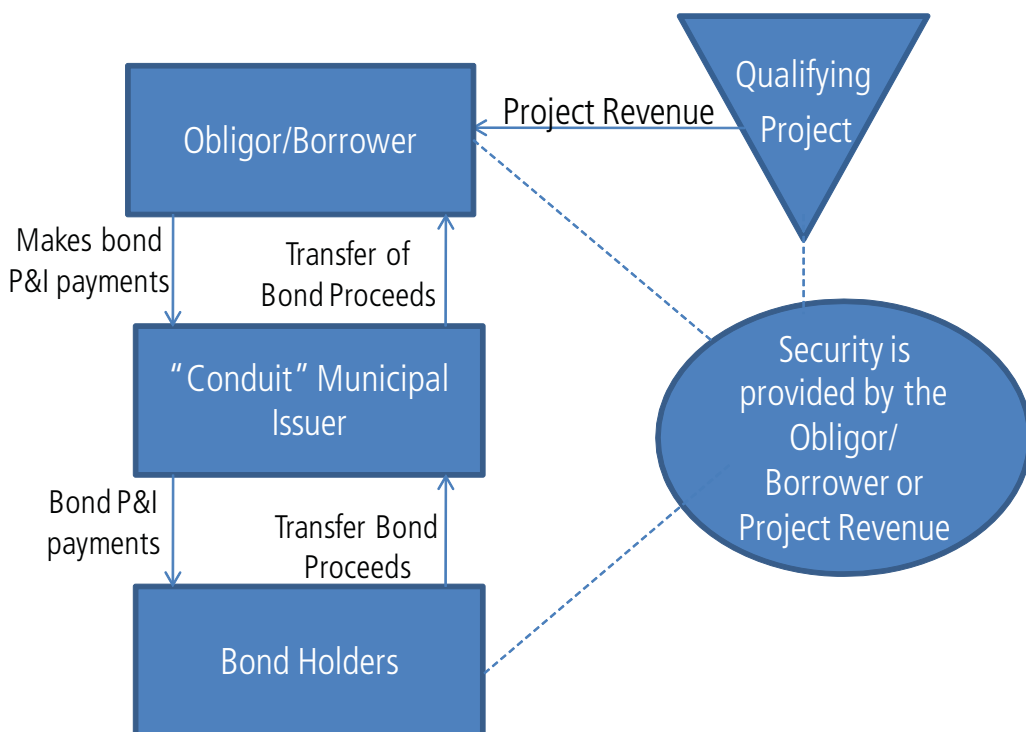
We advise investors to continue to consider conduit financings when appropriate, but remain conscious of underlying credit.

Municipal tobacco bonds may have put the worst behind them but uncertainty remains.

What is a Conduit Financing?

A conduit financing is a financing arrangement where a tax-exempt municipal bond issue is sold by a government organization or qualified agency (the conduit) on behalf of an obligor such as a not-for-profit hospital, higher education institutional or even a for-profit entity. The conduit, or government organization is not securing the bonds; the obligor or project revenues secure the bonds. The conduit is simply acting as an intermediary between the bond market and the obligor. These types of issues include a broad cross-section of sectors within the municipal bond market and also range from AAA rated debt all the way to non-rated debt on the credit spectrum.

Basic Security Structure for a Conduit Financing



Source: Janney Fixed Income Strategy.

Janney Recommendation About Conduit Financings

We advise investors to continue to consider conduit financings when appropriate, but investors need to remain conscious of the underlying credit securing the bonds. **Tom Kozlik**

JANNEY MUNICIPAL SECTOR OUTLOOK

Summary of Janney Tobacco Sector Update

The sector of bonds secured by tobacco settlement revenues is generally a high risk and high yield area, with uncertainty about future payments overhanging. We retain our "Cautious" outlook for the sector, but believe that the worst is behind, and expect consumption declines leveling out in the 4% range along with resolution of the non-participating manufacturer disputes to provide more consistent cash flows in the future. Investors must weigh the relatively high yields against the known and unknown risks impacting future tobacco settlement revenue cash flows. Varying in structure and structuring assumptions, the longer maturities of these issues have recently traded at yields ranging between 6% and 9%. For more detail about the municipal tobacco sector please see Janney's June 22, 2011 Municipal Market Note Titled, "Tobacco Sector Update."

Municipals are showing their best 12 month return since Nov. 2010 as Barclays' Municipal Bond Index was 3.48% as of June 30th.

A 420-page Act 47 plan was released on June 13th and outlined several options for Harrisburg to use to deal with its fiscal circumstances.

Harrisburg's structural deficit will grow if extraordinary action is not taken.

Janney Municipal Sector Outlook and Review

Municipals are showing their best 12 month return since Nov. 2010 as Barclays' Municipal Bond Index was 3.48% as of June 30th. Most notable is the tobacco sector's 12 month return which was 2.85%, also the best since Nov 2010 when tobacco returned 4.36%. **Tom Kozlik**

Janney Municipal Sector Outlook and Review

Sector	Janney Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Municipal Bond Index	-	-	3.48%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	4.45%	States raise taxes and cutting	Feb MBMM
Local Government	Cautious	Same	3.47%	Less revenue, downgrade worry	Nov MBMM
School Districts	Stable	Same	-	Less rev but States offer security	2011 Outlook
Airports	Cautious	Same	3.29%	Enplanements flying again	2011 Outlook
Higher Education	Cautious	Same	3.15%	Publics less \$, privates face pressure	2011 Outlook
Health Care	Cautious	Same	3.42%	Favor larger, higher rated providers	May 2011 Note
Housing	Stable	Same	3.96%	Single family is stronger than multi	Jan 2011 Note
Public Power (Elec.)	Stable	Same	3.57%	Essential purpose, but volatile	2011 Outlook
Tobacco	Cautious	Same	2.85%	Stronger than ratings show	Jun 2011 Note
Toll Facilities	Stable	Same	3.29%	Traffic rising, DS cov. strong	2011 Outlook
Water and Sewer	Stable	Same	3.49%	Essential purpose, future scarcity	2011 Outlook

Source: Returns from Barclays as of June 30, 2011 and Janney Fixed Income Strategy.

HARRISBURG, PA UPDATE

A 420-page Act 47 plan

In October 2010, acting on the request of Harrisburg's mayor, Pennsylvania approved Harrisburg's status as a distressed city under provisions of the state's Act 47. In January, an Act 47 coordinator was appointed to develop a plan. The coordinator, actually four entities lead by the Novak Consulting Group and including the Pennsylvania Economy League, law firm Stevens and Lee and former state House Speaker Bob O'Donnell's lobbying firm, was charged with delivering a recovery plan, which was submitted on June 13. The 420 page plan provided details and analysis of most aspects of the challenges facing the city, along with specific and often detailed suggested solutions to both the structural imbalance of the city's basic financial situation as well as the overhanging debt responsibilities under the city's guaranty of approximately \$280 million in debt associated with the troubled solid waste incinerator.

Summary of Harrisburg's Act 47 Recovery Plan

Selected findings and proposals of the Act 47 recovery plan include:

- A structural deficit in the city's operating budget will grow from \$3.5 million (6.3% of revenue) in the current fiscal year to \$10.4 million (19.5% of revenue) in 2015 if extraordinary action is not taken.
- The city will run out of cash and be unable to pay bills by 4Q2011.
- Reorganization of city government is a primary proposal. More coordination, staff sharing, communication and collaboration is needed among mayor, council members, treasurer, controller and Bureau of Financial Management. For example, the bureau, treasurer and controller each have separate financial staffs, leading to duplication and inefficiencies.

The Act 47 Plan proposes the sale or lease of significant city assets, including the parking system and the incinerator.

PA Governor Tom Corbett signed legislation prohibiting Class 3 municipalities, including Harrisburg, from filing for bankruptcy under Chapter 9 of the federal code, on penalty of losing all state aid.

We believe the process is moving in the right direction, and if successful, may establish a roadmap for other distressed municipal issuers.

Summary of Harrisburg's Act 47 Recovery Plan (continued)

- Specific cuts or freezes are necessary in employee compensation and staffing, including elimination of 19 full time equivalent positions. Interestingly, it is proposed that compensation for a City Manager should be increased so a qualified, seasoned professional can be attracted to the position.
- Increases in property tax and earned income tax rates should be considered as necessary.
- The city should pursue payments in lieu of taxes (PILOTS) for the non profits (including the state) that own 50% of real property in the city.
- Finally the plan proposes sale or lease of significant city assets, including the parking system and the incinerator.

Most Telling Recommendation- "a new spirit of cooperation..."

Perhaps the most telling, and ultimately important recommendation of the plan is requirement of "a new spirit of cooperation by those who govern Harrisburg – both internally as they interact with each other, and externally as they deal with regional partners..." Various parts of city government have been at loggerheads as to how to address the mess left in their laps, in large part by the prior administration. It seems that the majority of city council as well as the city controller favor a bankruptcy filing, while the mayor has spoken out against such a move. Council engaged New York law firm Cravath, Swaine & Moore, on a pro bono basis, to explore the pros and cons of Chapter 9 filing under the U S Bankruptcy code. The March report included much information and suggested approaches to addressing the city's financial morass, but did not advocate bankruptcy, saying that the Act 47 plan must first be considered and consensual solution pursued.

Governor Corbett Prohibits Class 3 PA Cities From Filing for Chapter 9

A week after delivery of the Act 47 plan, city council voted 4-3 to approve preparation of a bankruptcy petition, but this possibility was already being addressed by state legislators. Last week, Pennsylvania's governor signed legislation which would prohibit class three municipalities, including Harrisburg, from filing for bankruptcy under Chapter 9 of the federal code, on penalty of losing all state aid. The law is in force through June 30, 2012.

Dauphin County is Critical to Any Recovery Plan's Success

Other than council's move to prepare Chapter 9 filing, the city has yet to weigh in formally on the plan, although a June 28 public meeting indicated significant citizen and taxpayer resistance to tax increases and service cutback components. It's reported that the Novak group will submit a revised plan next week, in response to city council concerns about layoffs of fire and police personnel. Cooperation from Dauphin County, which has paid out about \$35 million thus far under guarantees of incinerator debt, is critical to the plan's success. Plan coordinators seek to have a portion of gambling tax revenue collected by the county redirected to Harrisburg. Forbearance from both the county and Assured Guaranty (AGM), insurer of most incinerator debt, will be needed, and the plan suggests that AGM will insure a small amount of additional debt which may be an important component of any plan to sell the incinerator, since its sale value is likely very much lower than the amount of outstanding debt associated with it.

A Long Process Likely Remains Ahead for Harrisburg

As bankruptcy recedes as a potential solution to Harrisburg's woes, we see a long and, to many residents, a painful process before the city regains solvency. There are many moving parts to the Act 47 coordinator's plan, dislodgement of any of which could derail a successful outcome. Due to guarantees from AGM and Dauphin County, bondholders have thus far been insulated from any financial pain. The city's general obligation bond debt service has been paid on time, with some state help. Principal and interest on revenue bonds of the Parking Authority, the water system, and other Harrisburg issuers have been paid on time. We believe the process is moving in the right direction and if successful may establish a roadmap for other municipal issuers facing financial stresses. **Alan Schankel**

M/T Ratios finished June lower generally outperforming taxable issues in the recent rising rate environment.

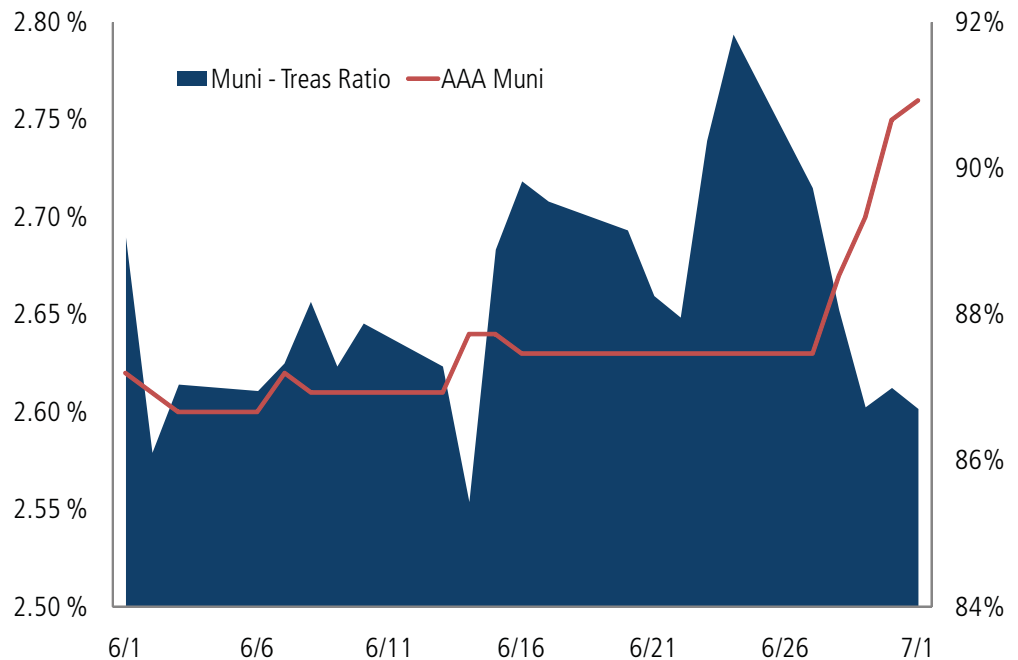
June new issue volume, with \$31.5 billion total of new issuance for the month, almost doubled the \$16.3 billion average of the prior five months.

Our 2011 year-end expectation of a final tally in the range of \$250-\$275 billion will not come close to 2010's \$430 billion.

MONTH IN REVIEW- MUNICIPAL MARKET COMMENTARY

Although tax free municipal bonds had a strong month in June, with little difficulty absorbing increased new issue volume, yields moved higher following Treasury yields, which shot up towards month end. Muni to Treasury ratios finished the month lower, so although tax free yields moved up, munis generally outperformed taxable issues in the recent rising rate environment.

10 Year M/T Ratios Fell Slightly in June



Source: Thomson Reuters, Bloomberg and Janney FIS.

June bucked the 2011 trend of sharply lower new issue volume, with \$31.5 billion total of new issuance for the month almost doubling the \$16.3 billion average of the prior five months. If only the tax free portion of volume is considered June, with \$28.7 billion, exceeded 2010's monthly average of \$25.1 billion in tax free borrowing. We believe new issue volume will continue to grow in the second half of the year, with monthly totals averaging between \$20-\$25 billion, ending the year in the range of \$250-\$275 billion, which is still low compared to 2010's record \$430 billion. Since most issuance will be tax free, this translates into a second half tax free total approaching 2010 levels. Our projection is based on expectations of increased issuance in a new fiscal year along with clarification of budget priorities, which will still include and recognize a need for capital expenditures and related financing, albeit at a reduced tempo compared to the past two year's spate of federally subsidized projects.

June New Issuance Surprised and Should Grow Through 2011

Type	Issuance Through June 2011	Issuance Through June 2010	First 6 Months-2011	First 6 Months-2010
Tax Free	\$28.7 bln	\$24.9 bln	\$97.4 bln	\$151.2 bln
Taxable	\$2.8 bln	\$9.8 bln	\$15.5 bln	\$53.4 bln
Total	\$31.5 bln	\$34.7 bln	\$113. bln	\$204.6 bln

Source: Bond Buyer and Janney FIS.

An underlying strength of the municipal market has been the strong participation by individual investors.

A recent Citigroup report estimated that total municipal debt outstanding was closer to \$3.7 trillion. A subsequent Bloomberg report confirmed the \$3.7 trillion number.

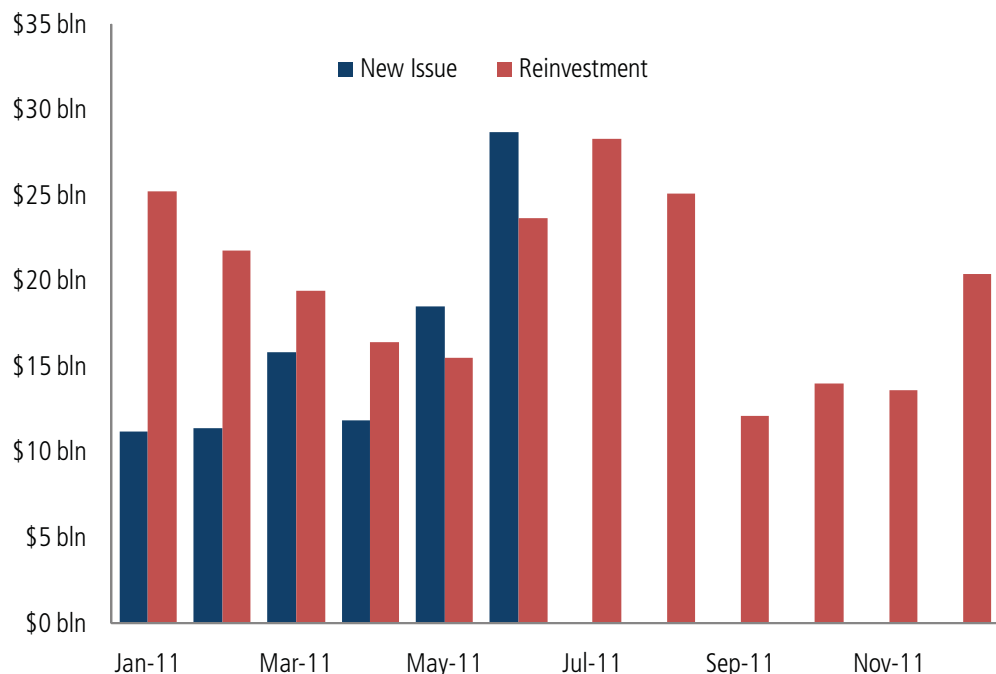
Trends favor tax frees in coming weeks.

Supply-Side of Municipals

The supply side of the scale is benefiting from strong summer reinvestment, as well as improvements in municipal bond mutual fund flows, which after twenty six straight weeks of investor liquidation, have experienced modest, positive flows for seven weeks. July and August will see about \$55 billion of maturities and redemptions, comfortably offsetting anticipated new issue volume. The picture is less clear entering Fall.

An underlying strength of the municipal market has been the strong participation by individual investors. Unlike mutual fund statistics, there are a few reliable gauges of high net worth investor participation on the market, but anecdotal reports indicate continued demand for tax frees on the part of the separately managed account (SMA) arms of the same investment companies that were losing mutual fund assets until recently. SMAs primarily manage investments for high net worth individuals.

2011 New Issue Volume and Strong Summer Reinvestment



Source: Bond Buyer, Interactive Data and Janney FIS.

Quarterly Federal Reserve Data

One source of information on individual participation in the municipal market has been quarterly Federal Reserve data, which as recently as March listed the amount of outstanding municipal bonds at \$2.9 trillion, with the household sector (primarily individual investors) accounting for about 37% of that amount. It turns out that the Fed methodology needs some work. A recent Citigroup report estimated that total municipal debt outstanding was closer to \$3.7 trillion, with about half held by individual investors. A subsequent Bloomberg report confirmed the \$3.7 trillion number.

Janney's Expectation for Short-term Trends

Trends favor tax frees in coming weeks. Although the direction of Treasury bond yields will continue to dictate the general path of tax free rates, a moderate new issue pace, improving fund flows and strong reinvestment numbers work in favor of tax frees, which should lead to lower M/T ratios in July. **Alan Schankel**

MUNICIPAL BOND MARKET MONTHLY

July 6, 2011



Select Recent Rating Outlook and Rating Changes (June 30, 2011)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Connecticut (State of)	CT	Moody's lowered outlook to negative from stable	28-Jun-2011	Aa2/AA/AA	Depleted reserves/pension stress
Miami (City of)	FL	S&P downgraded to BBB from A-	28-Jun-2011	A2/BBB/A-	Structurally unbalanced budgets
Harris County	TX	Moody's on review for possible downgrade	23-Jun-2011	Aaa/AAA/AAA	Narrowed financial position
Miami (City of)	FL	Moody's downgraded to A2 from A1	28-Jun-2011	A2/BBB/A-	Fiscal Instability
Catholic Health East	PA	Moody's downgraded to A2 from A1	20-Jun-2011	A2/NR/A+	Pressured ratios and perform
Central Falls (Town of)	RI	Moody's downgrades to Caa1 from B3	17-Jun-2011	Caa1/C	Mounting challenges
Cook County	IL	Moody's downgraded to Aa3 from Aa2	16-Jun-2011	Aa3/AA/AA	Overstatement of revenues
Hawaii (State of)	HI	Fitch downgraded to AA from AA+	15-Jun-2011	Aa2/AA/AA	Declining revenues
Florida Turnpike	FL	S&P lowered its outlook to stable from negative	6-Jun-2011	Aa3/AA-/AA-	Higher traffic improving ds
California Housing SF	CA	Moody's downgraded to Baa1 from A3	6-Jun-2011	Baa1/BBB	Weak mortgage perform
New York (State of)	NY	Fitch raised outlook to positive from stable	31-May-2011	Aa2/AA/AA	On time budget and sustainable
Rhode Island (State of)	RI	Moody's lowered outlook to negative from stable	31-May-2011	Aa2/AA/AA	Narrowed financial position
Rockland County	NY	S&P downgraded to BBB+ from A	26-May-2011	A1/BBB+	Negative balances and no plan
Aspinwall (Borough of)	PA	S&P downgraded to BBB from A	20-May-2011	NR/BBB	Weak financial practices
Harrison (Town of)	NJ	Moody's downgraded to Ba3 from Baa1	20-May-2011	Ba3/NR	Stadium lease guarantee

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

MUNICIPAL BOND MARKET MONTHLY

July 6, 2011



State and Other Select Issuer Ratings (June 30, 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	Negative	6/28/2011	AA	Stable	9/26/2003	AA	Stable	6/3/2010
Delaware	Aaa	Stable	-	AAA	-	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	Aa2	Stable	5/17/2011	AA	Stable	1/29/2007	AA	Stable	6/15/2011
Idaho (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/30/2011	AA	Stable	6/15/2000
Illinois	A1	Negative	9/23/2010	A+	Negative	12/10/2009	A	Stable	1/21/2011
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	AA	Stable	2/13/2007
Kentucky (*)	Aa2	Negative	3/30/2011	AA-	Stable	6/23/2009	AA	Negative	4/5/2010
Louisiana	Aa2	Stable	4/16/2010	AA	Stable	5/4/2011	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	Stable	3/24/2011	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	Aa3	Stable	4/27/2011	AA-	Stable	2/9/2011	AA	Negative	4/27/2011
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	Positive	5/31/2011
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	4/11/2011
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	Aa1	Negative	4/16/2010	AA	Stable	11/6/1998	AA+	Negative	5/14/2010
Puerto Rico	A3	Watch Down	5/3/2011	BBB	Stable	3/7/2011	BBB+	Stable	1/19/2011
Rhode Island	Aa2	Negative	5/31/2011	AA	Stable	4/22/2011	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	3/25/2011	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	4/16/2010	AA+	Positive	5/5/2011	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	-	-	AAA	Stable	5/3/2011	NR	-	-

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

MUNICIPAL BOND MARKET MONTHLY

July 6, 2011



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.

MUNICIPAL BOND MARKET MONTHLY

July 6, 2011



Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
Tobacco Sector Update	June 22, 2011	Note	MSA Payments dropped in 2011 but better days ahead
Washington Will Not Target Tax-Exempts	May 25, 2011	Monthly	We do not expect lawmakers to eliminate tax-exemption
Non-Profit Healthcare Sector	May 23, 2011	Note	Risk reward favors large/higher rated issuers
New Jersey Bonds Oversold	May 10, 2011	Note	NJ yields offer investor value
State Fiscal Health Scorecard Update	April 28, 2011	Note	Stronger state health indicators
State Tax Revenues Continue to Grow	April 20, 2011	Note	Preliminary results show higher state revenues
Negative Rating Agency Moves...	April 20, 2011	Monthly	DeKalb County multi-notch downgrade
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	Note	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 were 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

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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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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Municipals: Janney FIS ratings employ the "Barclay's Municipal Bond Index" as a benchmark.

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