

# MUNICIPAL BOND MARKET MONTHLY

## JANNEY FIXED INCOME STRATEGY

November 15, 2011



CONTENTS	PAGE
WASHINGTON UNCERTAINTY	1
MARKET COMMENTARY	2
LOCAL GOVERNMENT SECTOR REVIEW	3
ATTENTION TO OUTLIERS	6
SELECT RATING CHANGES	8
STATE ISSUER RATINGS	9
MUNICIPAL RATING DEFINITIONS	10
JANNEY MUNICIPAL PUBLICATIONS	11
DISCLOSURE	12

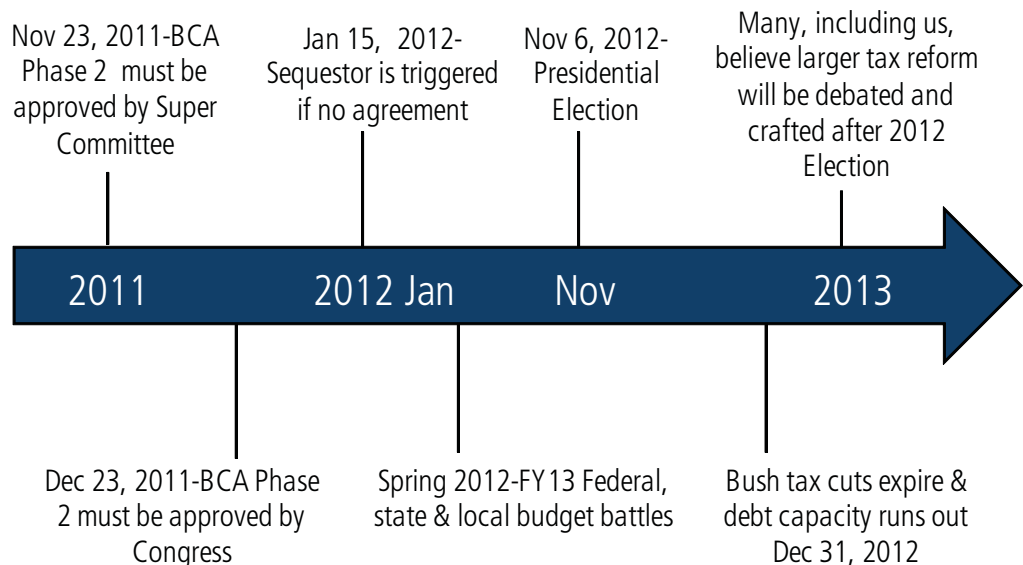
## U.S. Local Government Credit Quality Remains Strong, Despite Focus on Outliers

- News out of Washington D.C. will continue to attract attention as the Select Committee fails and sequester caps are triggered, but municipals will not be significantly affected to the downside by factors related to future deficit reduction measures.
- Investors have absorbed higher bond sale activity and volume for the third week of November is the highest of the year. M/T Ratios remain attractive.
- Local government credit quality remains strong, as illustrated by Aa2, Aa3, and Aa3 medians for counties, cities and school districts. Although slight credit deterioration and rating downgrades are possible in the near term, medians will not descend far and bondholders will be paid.
- Extensive attention is still being given to the distressed local government outliers. We reiterate that most of the cases are isolated and represent extenuating circumstances. The interest is left over from Meredith Whitney's overstated prediction. Recent data is evidence of her error.
- Jefferson County, AL and Harrisburg, PA filed for Chp. 9 municipal bankruptcy, but these actions are not reflective of nation-wide fiscal conditions. Moody's put Penn State on review for a possible downgrade and also lowered the underlying rating on Lancaster County, PA.

## WASHINGTON UNCERTAINTY CONTINUES AS MUNICIPALS MOVE AHEAD

U.S. municipal market issuers have made it through the wake of the Great Recession in relatively strong shape, all things considering. State and local government issuers specifically have exhibited a strong willingness to adjust budgets as necessary, mostly in response to economic factors that created drop-offs in revenues. During the rest of 2011 through at least 2013 issuers could be faced with additional head-winds, some from acts of Washington D.C. lawmakers and potential deficit reduction measures. We believe most municipal issuers will be able to endure the disturbance with

### Timeline of Upcoming Washington Related Events



**TOM KOZLIK**  
Municipal Credit Analyst  
215.665.4422  
tkozlik@janney.com

**ALAN SCHANKEL**  
Managing Director  
215.665.6088  
aschankel@janney.com

See page 12 for important information regarding certifications, our ratings system as well as other disclaimers.

JANNEY MONTGOMERY SCOTT  
www.janney.com  
© 2011 Janney Montgomery Scott LLC  
Member: NYSE, FINRA, SIPC

Janney does not expect any type of significant agreement and anticipate the sequester caps to be activated at the beginning of next year.

additional budget adjustments as needed. Slight credit deterioration and ratings downgrades could possibly occur but on a very limited basis.

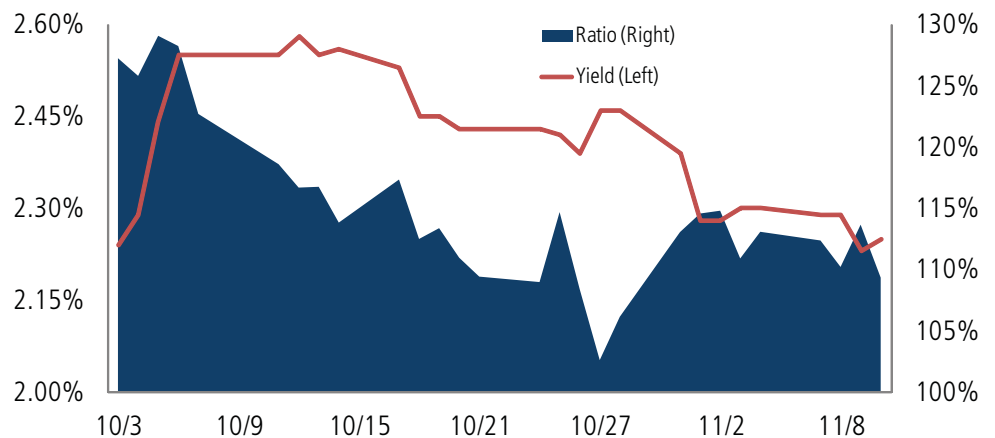
The week of November 7th passed without significant ground being made by the Super-Committee tasked with finding \$1.2 trillion in additional deficit reduction measures as laid out in the Budget Control Act of 2011. November 23rd is the deadline when the committee is supposed to present a plan approved by its 12 member group. Intermittent reports have leaked, but neither side is budging according to most press accounts. While it is often problematic to speculate on the political process due to the uncertainty, we still do not expect any type of significant agreement and anticipate the sequester caps to be activated at the beginning of next year. Please see our October Municipal Bond Market Monthly for more detail about the Budget Control Act and likely sequester caps.

## MUNICIPAL MARKET COMMENTARY

The municipal market has had little problem absorbing the increased new issue flow of the final quarter. Yields have moved lower thus far, and although municipal to Treasury ratios remain well above 100%, they've been relative stable. The new issue calendar for the week of November 14th totaled \$13.2 billion according to Bloomberg, the busiest week of the year and enough to push the 30 day visible supply to the highs of the year.

Municipal market investors have had little problem absorbing higher volume.

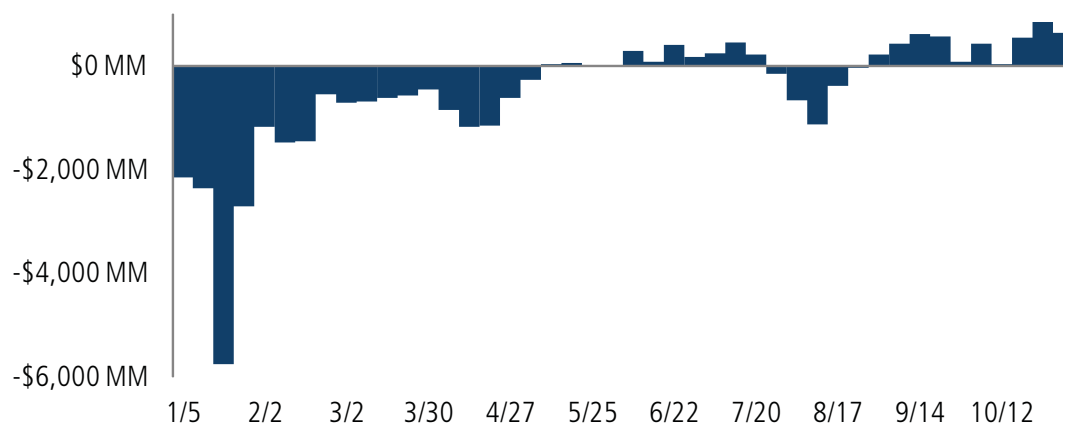
### M/T Ratios Remain Attractive Into November



Source: Thomson Reuters and Janney FIS.

The demand side of the balance remains strong, with municipal bond fund flows in positive territory for the eleventh week in a row. Reinvestment flows from maturing and redeemed bonds slowed in October and November, after a robust summer, but the pace will pick up in December and into January, adding demand support to market dynamics.

### Weekly Municipal Mutual Fund Flows Are Still Positive



Source: Investment Company Institute and Janney FIS.

We expect continued strong primary flow into December, but believe demand will be up to the task, especially with ratios above 100% encouraging crossover buyers.

Median local government ratings are between Aa2 and Aa3.

Close attention continues to be paid to all revenues and expenditures by local governments.

The median rating for counties is Aa2.

## LOCAL GOVERNMENT CREDIT QUALITY REMAINS STRONG

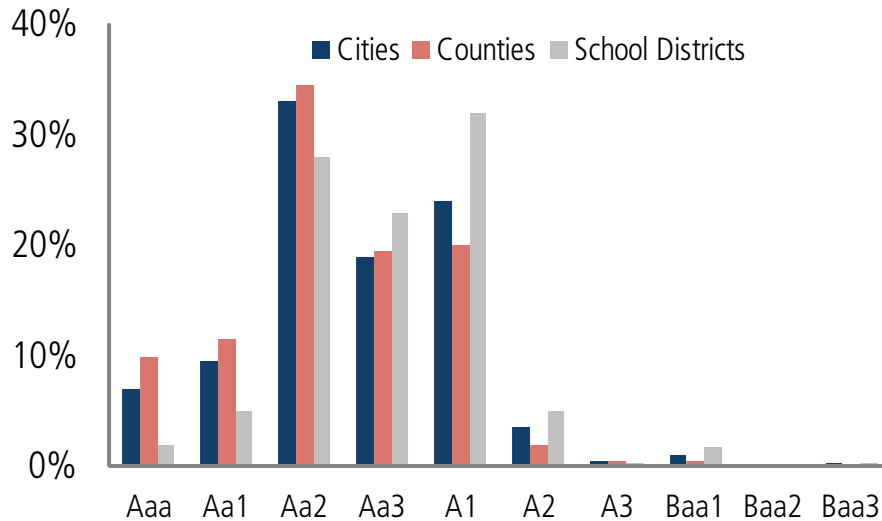
Overall, local government credit quality and ratings remain strong as 2011 comes to a close. Median local government ratings are still at prominent levels, between Aa2 and Aa3, depending upon the sub-sector. This is despite the effects from the Great Recession and the extremely high level of headline risk investors and observers have endured.

### Median Local Government Ratings

Sub-sector	Median Rating
County	Aa2
City	Aa3
School Districts	Aa3

Source: Moody's Local Government Medians Sept 2011 and Janney FIS.

### Moody's Rated Local Government Ratings Distribution



Source: Moody's Local Government Medians Sept 2011 and Janney FIS.

The American Recovery and Reinvestment Act of 2009 significantly helped local governments make it through recent budget cycles. Close attention continues to be paid to all revenues and expenditures by locals' management teams and their political actors. On the revenue side, there are several factors that could possibly contribute to lower income in the near to medium term. State aid cuts, to a degree, might be possible from federal deficit reduction measures. Other reductions might also occur due to overall lower tax revenues. At the local level, lower property tax revenues are expected to fall in the near term and some are forecasting this factor to significantly hinder local government credit quality. However, the extent to which lower property taxes hurt local government's credit quality is going to depend upon the region and or part of the country. Lower property tax revenues are not a certainty in all locations.

### Select U.S. County Ratings

County	State	Moody	S&P	Population
Norfolk	MA	Aa3	NR	670,850
Suffolk	NY	Aa2	AA	1,493,350
Bergen	NJ	Aaa	NR	905,116
Montgomery	PA	Aaa	NR	799,874
Montgomery	MD	Aaa	AAA	971,777

Source: Moody's; S&P; US Census Bureau and Janney FIS.

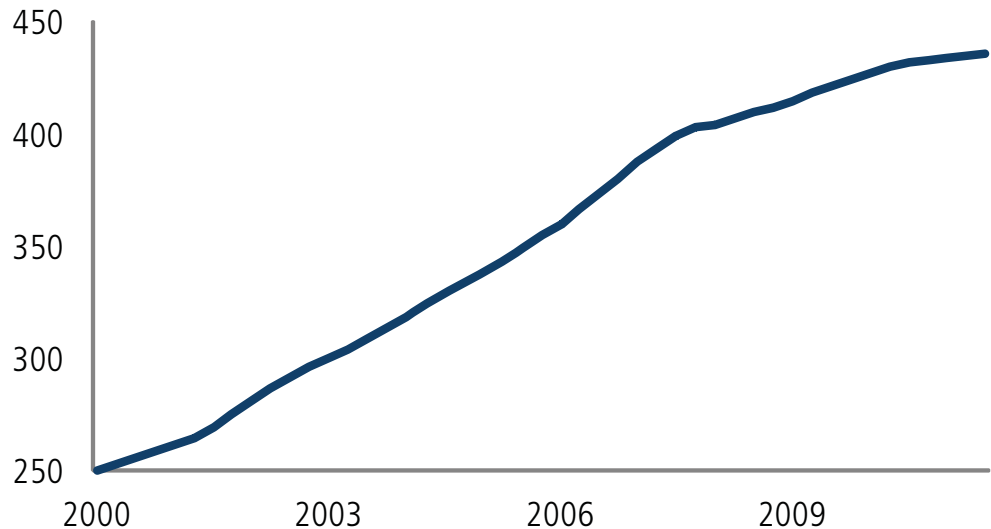
Lower property tax revenues are not a certainty.

A significant drop-off in property taxes is still not likely in most areas of the country.

Changes are being made on the local government expenditure side.

Property values in most New England states and Pennsylvania, for example, remained largely flat with some increases but nowhere near those experienced in the hyper-inflated markets. Therefore, not all new property valuations will fall. Areas such as Florida, California and Nevada are another story. Some local governments in each of those states experienced significant increases in property values in the late 2005-2009 time period, and they may have to adjust to new, mostly lower, real estate valuations in coming years. Property taxes are a lagging indicator, so lower receipts will likely not be realized for a few more years.

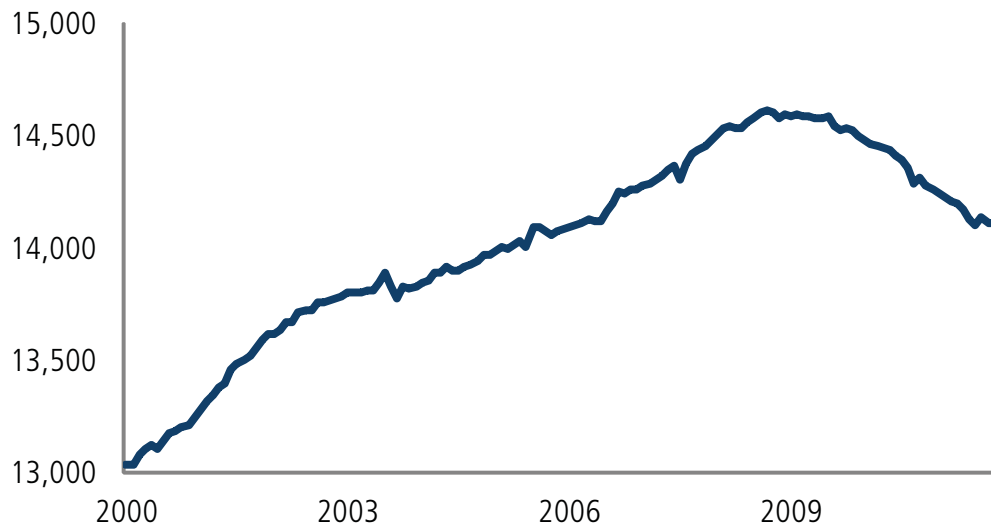
## U.S. State and Local Property Taxes



Source: Bureau of Economic Analysis, Bloomberg and Janney FIS. \$ in billions.

Changes are being made on the local government expenditure side too. Workforce and employment related expenses are usually the largest expenditures for local governments. We have seen them come down closer to 2006 levels. Other important current and in some cases future expenditures that have been at the forefront of many local government discussions are related to union contracts, pensions and other post employment benefits. These oftentimes unsustainable benefit packages that have contributed to locals' structural budget imbalances are being renegotiated in some cases.

## U.S. Local Government Employment is Close to 2006 Levels



Source: Bureau of Labor Statistics, Bloomberg and Janney FIS. #s in thousands.

Although we have a “Cautious” outlook on the U.S. Local Government Sector, we do not expect a significant percentage of them to deteriorate in credit quality.

We remain concerned about uncertainty with regard to the U.S. economic recovery, are looking out for potential blowback from the European debt crisis, and believe there is still the possibility of a mild European recession.

The local government sector’s credit strengths far outweigh its weaknesses.

## Janney Local Government Outlook Still “Cautious” Due to Uncertainty

Although we have a “Cautious” outlook on the U.S. Local Government Sector, we do not expect a significant percentage of them to deteriorate in credit quality. More specifically, our “Cautious” designation reflects our uncertainty about potential factors that may affect this historically safe sector in ways never strongly considered. Municipal bond investing has gone through a significant transition over the last three years. There are several issues investors need to consider which they never had to think about before AAA insurance collapsed, state and local government revenues started to fall, and since local governments started to guarantee non-government competitive enterprise endeavors.

A local government general obligation or guaranteed bond was considered an investment that could be purchased and then shoved to the back drawer of an investor’s portfolio and forgotten. It is this premise, traditionally considered to be sound, which continues to require re-evaluation. At Janney, we lowered our outlook on the local government sector to “Cautious” from “Stable” in the middle of 2009 mainly because of anticipated lower funding levels from states. Now, we remain concerned about uncertainty with regard to the U.S. economic recovery, are looking out for potential blowback from the European debt crisis, and believe there is still the possibility of a mild European recession. We should note that Moody’s also placed the local government sector on negative outlook over two years ago and still maintains the same view.

## Local Government Credit Quality Will Remain Close to Current Level

Local governments will remain strong and median ratings will not shift significantly from their current levels. We expect issuers will experience some slight credit deterioration and rating downgrades in the near term but overall credit quality will remain strong and issuers will continue to make their scheduled debt service payments. The sector’s credit strengths far outweigh its weaknesses. A summary of the sector’s credit strengths and weaknesses is below:

### Local Government Credit Strengths

- Very strong credit quality – median ratings between Aa2 and Aa3.
- Possess differing but flexible ability to control revenues and expenditures.
- Strict fiscal rules requiring balanced budgets and/or multi-year planning procedures.
- Most have exhibited a strong ability and willingness to pay.
- Strong state government level involvement when necessary and state oversight mechanisms such as Pennsylvania’s Act 47.
- Currently stabilizing U.S. economic forces compared to the uncertainty of 2009 and 2010.

### Local Government Credit Weaknesses

- Lower revenues- in form of cuts in state aid, limited declines property value and tax collections (depending upon region) and potential deficit reduction.
- Rising pension and health care expenses could potentially become burdensome to many locals in the medium to long term.
- Exposure to competitive enterprise risk, while not widespread, can exhaust local revenues if the project turns bad.
- Questions about political actors’ willingness to do what is necessary to restore fiscal balance exist.
- Potential economic volatility from European debt crisis and prospect of an economic recession in Europe.

Most local governments have exhibited a strong ability and willingness to pay.

"There's not a doubt in my mind that you will see a spate of municipal bond defaults," Meredith Whitney.

As it turns out, only 2 local governments defaulted on bondholders in 2011, through October.

## FOCUS ON WHITNEY'S FALSE PROPHECY & OUTLIERS, DESPITE DATA

### The Prediction

60 Minutes excerpt, Dec. 19, 2010: "Whitney believes the states will find a way to honor their debts, but she's afraid some local governments which depend on their state for a third of their revenues will get squeezed as the states are forced to tighten their belts. She's convinced that some cities and counties will be unable to meet their obligations to municipal bond holders who financed their debt. Earlier this year, the state of Pennsylvania had to rescue the city of Harrisburg, its capital, from defaulting on hundreds of millions of dollars in debt for an incinerator project."

"There's not a doubt in my mind that you will see a spate of municipal bond defaults,' Whitney predicted. Asked how many is a 'spate,' Whitney said, 'You could see 50 sizeable defaults. Fifty to 100 sizeable defaults. More. This will amount to hundreds of billions of dollars' worth of defaults.'"

### Focus Had Been on a Small % of Local Government Credits

While the popular and financial media's inexpert advice took municipal bond market headline risk to another level in 2010, Meredith Whitney's prediction brought the noise to a crescendo. It was the overstatement heard round the country. Even observers outside of the municipal market felt the shake of Meredith Whitney's prediction. And, not surprisingly, she was wrong.

Why did she do it? There are several theories. But, we will probably never fully understand why. However, the numbers in her original prediction never made much sense; "50 to 100 sizeable defaults amounting to hundreds of billions," simply do not add up. The average municipal local government has about \$20 million of debt outstanding. In order for her prediction to come close to being true practically every medium to large U.S. city would have to default on their debt service payments. There is no way that is going to happen. It really was an erroneous assertion when you think about the detail.

### Why Does the Prediction Still Matter?

The explanation as to why it still matters to us is because it still matters to investors. Almost a year after her prediction there are still numerous investors who are wondering or startled by her false prophecy. This is occurring partly because, and let us give her credit where credit is due, she was correct back in 2008 when she predicted Citigroup would cut its dividend. But, most importantly, investors had their investment compasses shaken off track as a result of the events of the World Financial Crisis. Many investors are still scared and do not know whom to trust.

### Truly Distressed Locals Remain Rare

Situations such as those excessively highlighted in the press have been very, very rare among the almost 90,000 U.S. governments. The distressed local governments such as Harrisburg, PA; Jefferson County, AL; and Central Falls, RI all suffer from extenuating circumstances. There is always something specific causing the fiscal strain. And the causes, such as competitive enterprise risk or inappropriate financial products, are not indicative of factors stressing locals throughout the country. Those rare credit stresses are still not expected to create a Municipal Meltdown or result in a significant increase in the number of municipal or local government defaults. A perfect example of this is illustrated by the market's lack of a reaction when Harrisburg, PA and Jefferson County, AL filed for bankruptcy. The market did not even blink.

### Only 2 Local Governments Defaulted on Bondholder Payments in 2011

As it turns out, only 2 local governments defaulted on general obligation pledges to bondholders out of the 42 municipal market defaults in 2011, as recorded by the Distressed Debt Newsletter's October data. The others were in the higher risk, non-traditional municipal sectors such as nursing homes, health-care, and industrial development bonds or were instances where a payment default did not occur. In addition to payment defaults, the Distressed Debt Newsletter includes Chp. 9 filings and instances where issuers have drawn on reserves. These actions can occur without issuers defaulting on debt service payments to bondholders.

Distressed local governments such as Harrisburg, PA; Jefferson County, AL; and Central Falls, RI do not reflect general local government credit conditions.

Only the cities of Brighton, AL and Pemberton, MN defaulted on bondholders in 2011.

Investors should focus on buying high quality local governments.

## Municipal Bond Default Summary

Year	Number of Issues	Par Amount (\$ in millions)
2011	42	\$949
2010	95	\$3,413
2009	225	\$8,507

Source: Income Securities Advisors as of Oct. 2011 and Janney

Central Falls, RI, Harrisburg, and Jefferson County were or will be included in the Distressed Debt numbers because they filed for Chp. 9. It is critical to also note that neither of the local government instances of payment default included a significant amount of debt, and neither was rated by one of the major rating agencies.

## Descriptions of the 2011 Local Government Payment Defaults

- The City of Brighton, AL (Not Rated) defaulted on principal and interest due August 1 on \$1,120,000 of outstanding Series 2003 general obligation warrants. A material event notice dated August 3, 2011 was issued indicating that payment was not made due to a lack of funds. CUSIP#- 109264AK7. Disclosure was non-existent, as the city had not filed financial statements according to the MSRB's EMMA web-site and Bloomberg. The sources and uses indicated that the proceeds were to be used for "general municipal purposes." Brighton is a town of about 3,600 people in Jefferson County, AL. We are not aware of a relationship between the City and the larger financial issues within Jefferson County, AL.
- The City of Pemberton, Minnesota (Not Rated) defaulted on principal and interest due August 1, 2011 on \$855,000 of Series 2007 certificates of participation which were part of a lease that was supposed to be supported by the city. A material event notice was posted on Sept 30, 2011 indicating that the city failed to appropriate money for the lease and that the city terminated the lease. CUSIP#- 706231AG. The proceeds of the bonds were used to renovate a school building that would contain City Hall, the public works department, a community center and additional office space. Pemberton is a city of about 247 people in southern Minnesota.

## Investor Recommendation

In order to best avoid the pitfalls that might accompany investing in local governments, investors should focus on buying high quality local governments that have minimized their exposure to the highlighted negative credit factors and that have released current financial information. Most locals fall into the high quality category and would be candidates due to their median ratings of Aa2-Aa3.

# MUNICIPAL BOND MARKET MONTHLY

November 15, 2011



## Select Recent Rating Outlook and Rating Changes (Nov 14, 2011)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Penn State University	PA	Moody's on review for possible downgrade	11-Nov-2011	Aa1/AA	Will review over coming months
Lancaster County	PA	Downgraded to A1 from Aa2 by Moody's	9-Nov-2011	A1/NR	Structural budget deficits
Jefferson County	AL	City filed for Chp 9 bankruptcy	9-Nov-2011	Caa1/B	Negotiations continue
Wenatchee (City of)	WA	Downgraded to A3 from Aa3 by Moody's	4-Nov-2011	A3/A-	Competitive enterprise concerns
Saints Medical Center	MA	Downgraded to Caa1 from B1 by Moody's	27-Oct-2011	Caa1/NR/B-	Withdrawn asset purchase discuss.
Fort Meyers	FL	Downgraded to A+ from AA- by Moody's	26-Oct-2011	A+/NR	High debt levels
VA Comm Health System	VA	Upgraded to AA- from A+ by S&P	24-Oct-2011	A1/AA-	Strong ratios
Fresno (City of)	CA	Downgraded to A2 from Aa2 by Moody's	20-Oct-2011	A2/NR	Depletion of reserves
Orlando Orange Cty Exp	FL	Downgraded to A2 from A1 by Moody's	19-Oct-2011	A2/A	Lower forecasts and state support
Harrisburg (City of)	PA	City filed for Chp 9 bankruptcy	11-Oct-2011	None	In court, Nov 23 hearing

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

# MUNICIPAL BOND MARKET MONTHLY

November 15, 2011



## State and Other Select Issuer Ratings (Nov 14, 2011)

State	Moody's Rating	Moody's Outlook	Moody's Last	S&P Rating	S&P Outlook	S&P Last	Fitch Rating	Fitch Outlook	Fitch 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-	Stable	7/7/2011	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	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	Stable	7/12/2011	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	2/15/2011
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+	Stable	9/16/2011	AA+	Stable	4/5/2010
Michigan	Aa2	Stable	4/16/2010	AA-	Stable	5/22/2007	AA-	Positive	7/27/2011
Minnesota	Aa1	Stable	4/16/2010	AA+	Stable	9/29/2011	AA+	Stable	7/7/2011
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-	Stable	8/17/2011
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+	Stable	7/19/2011	AA+	Stable	4/11/2011
Oklahoma	Aa2	Stable	4/16/2010	AA+	Stable	9/5/2008	AA+	Stable	4/5/2010
Oregon	Aa1	Stable	4/16/2010	AA+	Stable	3/10/2011	AA+	Stable	4/5/2010
Pennsylvania	Aa1	Negative	4/16/2010	AA	Stable	11/6/1998	AA+	Negative	5/14/2010
Puerto Rico	A3	Wtch Dwn	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	Stable	7/18/2011
South Carolina	Aaa	Stable	3/23/2007	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
South Dakota (*)	Aa2	Stable	5/27/2010	AA+	Stable	3/25/2011	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	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+	Stable	7/8/2011
Wisconsin	Aa2	Stable	4/16/2010	AA	Stable	8/15/2008	AA	Stable	4/5/2010
Wyoming (*)	NR	-	-	AAA	Stable	5/3/2011	NR	-	-

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

# MUNICIPAL BOND MARKET MONTHLY

November 15, 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

November 15, 2011



## Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
State Fiscal Health Scorecard Update	October 27, 2011	Note	Spreads have tightened after budget adjustments
Municipals Attractive Relative Value	October 24, 2011	Note	Spreads and M/T Ratios are attractive
Investors Should Expect Sequestration	October 19, 2011	Monthly	Ratios remain attractive and compromise not likely
Harrisburg Update	October 13, 2011	Note	PA state capital filed for bankruptcy
Bond Insurance Part 1, 2 & 3	October 11, 2011	Note	Municipal bond insurer update
Elevated M/T Ratios are Opportunity	October 5, 2011	Note	M/T Ratios are very attractive across the curve
Opportunities in Municipals Despite Gridlock	September 22, 2011	Monthly	M/T Ratios and spreads to benchmarks are attractive
Bank Qualified and 2% DiMinimis	September 14, 2011	Note	Temporary incentives offer opportunities
Washington's Questionable Influence	August 31, 2011	Monthly	Political rhetoric will be overstated in the coming months
PA School Intercept Program	August 31, 2011	Note	Creates a level of security that enhances underlyings
State Fiscal Health Scorecard Update	August 12, 2011	Note	State are financially flexible and autonomous
New Jersey Debt Overview	August 3, 2011	Note	Review of New Jersey debt programs
Five States on Downgrade Watch	July 20, 2011	Note	Moody's placed 5 states on Review for Downgrade
SF Housing Spreads Highly Attractive	July 18, 2011	Note	Municipal bond buying opportunity as spreads widen
Municipals 6 Months after Whitney	July 6, 2011	MBMM	Default statistics show Whitney overstated
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 Revior 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"

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.

## Definition of Outlooks

**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.

**Cautious:** Janney FIS believes there are factors which introduce the potential for declines in issuer or sector credit quality that may result in potential credit ratings downgrades.

**Negative:** Janney FIS believes there are factors which point towards weakening in issuer credit quality that will likely result in credit ratings downgrades.

## Definition of Ratings

**Overweight:** Janney FIS expects the target asset class or sector to outperform the comparable benchmark (below) in its asset class in terms of total return

**Marketweight:** Janney FIS expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return

**Underweight:** Janney FIS expects the target asset class or sector to underperform the comparable benchmark (below) in its asset class in terms of total return

## Benchmarks

**Asset Classes:** Janney FIS ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclay's U.S. Aggregate Bond Market Index" as a benchmark.

**Treasuries:** Janney FIS ratings employ the "Barclay's U.S. Treasury Index" as a benchmark.

**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.

**High Yield Credit:** Janney FIS ratings for employ "Barclay's U.S. Corporate High Yield Index" as a benchmark.

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

## Disclaimer

Janney or its affiliates may from time to time have a proprietary position in the various debt obligations of the issuers mentioned in this publication.

Unless otherwise noted, market data is from Bloomberg, Barclays, and Janney Fixed Income Strategy & Research (Janney FIS).

This report is the intellectual property of Janney Montgomery Scott LLC (Janney) and may not be reproduced, distributed, or published by any person for any purpose without Janney's express prior written consent.

This report has been prepared by Janney and is to be used for informational purposes only. In no event should it be construed as a solicitation or offer to purchase or sell a security. The information presented herein is taken from sources believed to be reliable, but is not guaranteed by Janney as to accuracy or completeness. Any issue named or rates mentioned are used for illustrative purposes only, and may not represent the specific features or securities available at a given time. Preliminary Official Statements, Final Official Statements, or Prospectuses for any new issues mentioned herein are available upon request. The value of and income from investments may vary because of changes in interest rates, foreign exchange rates, securities prices, market indexes, as well as operational or financial conditions of issuers or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. We have no obligation to tell you when opinions or information contained in Janney FIS publications change.

Janney Fixed Income Strategy does not provide individually tailored investment advice and this document has been prepared without regard to the circumstances and objectives of those who receive it. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. For investment advice specific to your individual situation, or for additional information on this or other topics, please contact your Janney Financial Consultant and/or your tax or legal advisor.