

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

April 20, 2011



State tax revenue performance has come a long way in just a year.

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State Tax Revenues Continue to Grow in 2011

- Preliminary results for Jan and Feb 2011 show state tax revenues were 9.5% higher.
- Q2011 would be the 5th straight quarter of higher revenue if this positive movement holds.
- Janney recommends investors continue to diversify their municipal holdings and stick with high quality general obligation and revenue bonds.

State Tax Revenues Have Come a Long Way in a Year...

State tax revenue performance has come a long way in just a year. At this time in 2010 we had experienced five straight quarters of falling tax collections as a result of lower economic activity and the Great Recession. Investors should definitely be encouraged with the progress of states' fiscal situations now, despite recent headline risk. We do not expect states' ratings to be changed in the near term as a result of S&P's negative outlook assignment on the United States.

...and They Have Picked Up in 2011 Where They Left Off in 2010

State tax revenues continued to show that state government fiscal situations are generally firming as preliminary results for Jan and Feb 2011 showed state tax revenues were 9.5% higher compared the same months in 2010, as reported by a recent Rockefeller Institute of Government State Revenue Report. This was based on data from 45 states. The first quarter of 2011 will be the fifth straight quarter of higher state tax revenue growth if this encouraging movement holds through March, a result we believe is likely.

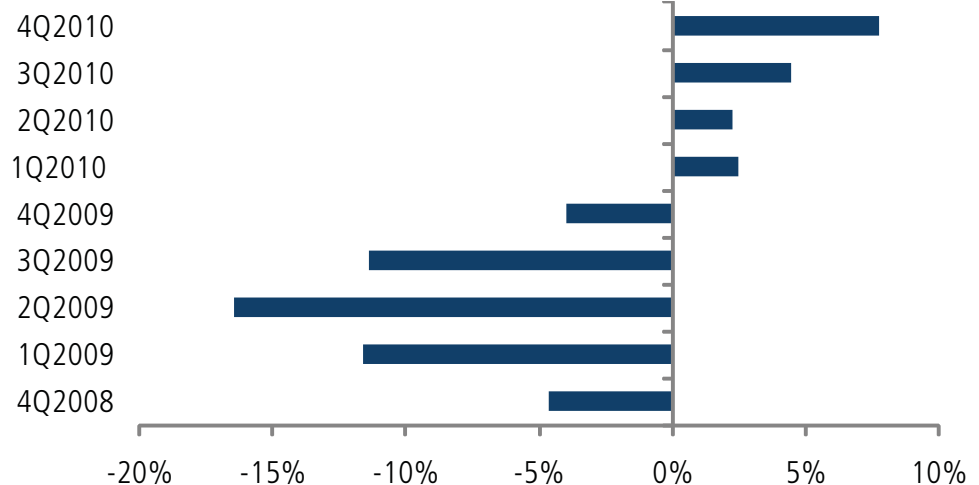
Final 4Q2010 state tax revenue growth was adjusted up to 7.8% from the preliminary result of 6.9%. The final 4Q2010 result was led by corporate income taxes that were 17.2% greater and personal income taxes which were 10.6% better. Sales taxes were also stronger by 5.6%.

This positive news is countered by reports that 4Q2010 total state tax revenues were still lower than those from 4Q2007 and that local tax collections declined by 2.3% in 4Q2010.

Janney Recommendation

Janney recommends investors keep their municipal portfolios diversified while remembering the concept of states' family tree of funding or the idea that some issuers rely on state government aid or subsidies. In general, investors should stay with high quality state level general obligation and high quality revenue bond issues and only go further out on the credit curve when informed.

State Tax Revenue YoY Quarterly Change



Source: Rockefeller Institute and Janney Fixed Income Strategy.

TOM KOZLIK
Municipal Credit Analyst
215.665.4422
tkozlik@janney.com

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