

MUNICIPAL BOND MARKET MONTHLY

JANNEY FIXED INCOME STRATEGY

August 13, 2010



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Tobacco Sector Update and Pennsylvania's Act 47 Program for Distressed Municipalities

- Tax-exempt yields have moved near all time lows since April with a light supply and robust demand relationship continuing.
- The U.S. House approved \$26 billion to states to pay for Medicaid and to support school districts but we will have to wait until September for a vote on other bond program extensions.
- We have lowered our outlook for tobacco bonds to Negative while S&P placed the ratings of thirty-one tobacco bond issuers on Negative Credit Watch.
- Pennsylvania's Act 47 is an assistance plan which aids financially distressed PA municipalities and we believe it is a credit positive for participants for the short term.
- Wall Street reform will moderately alter municipal market activity, with more regulation.
- Puerto Rico put on Negative Outlook by Moody's; Chicago lowered by Moody's and Fitch and Philadelphia Gas Works was raised by S&P.
- Select issuer credit rating changes, current state issuer ratings, rating agencies' ratings definitions, and a list of Janney's municipal publications are included on pages 10 to 13.

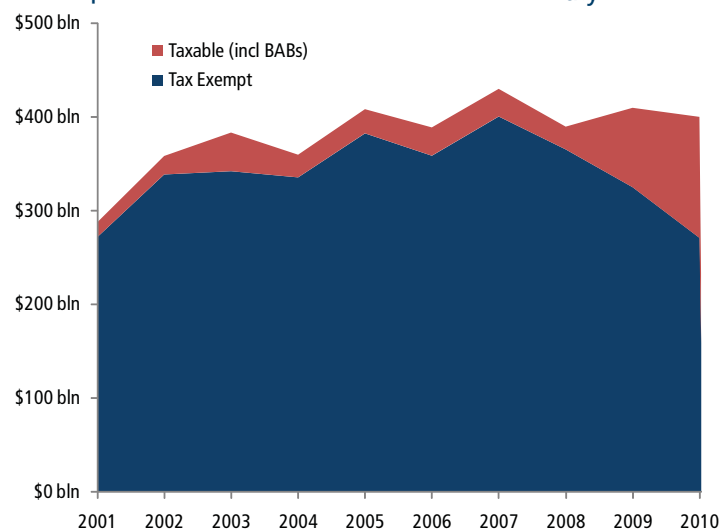
MARKET COMMENTARY

Supply and Demand Dynamics

Tax free yields have been moving lower since April with only a few bumps along the way, propelled partly by the strong Treasury markets but also by the supply demand dynamics of the tax free market. Overall new issue supply has been flat with 2010 expected to finish about where 2009 ended - \$410 billion, but the taxable to tax free mix has changed dramatically. With the advent of Build America Bonds (BABs) in April 2009, taxable bonds, which had traditionally accounted for less than ten percent of municipal issuance jumped to a quarter or more of the market. BABs brought in new buyers including domestic pension and retirement accounts as well as non U.S. buyers. But the net result was fewer new tax free issues, with volume of new tax frees for 2010 expected to be the lowest in ten years.

Unlike supply, demand has been robust. Inflows to tax free mutual funds are one proxy for demand, and they've had a very strong year. Crossing the \$500 billion mark earlier this year, assets are at an all time high point. Weekly inflows, after slipping during tax season, are approaching the strong levels of the first quarter. Long term tax free yields are nearing historical lows, but investors continue to seek tax frees – with inflation running at the lowest level in years, and whiffs of disinflation or even deflation in the air, a three or

Municipal New Issue Volume Annualized to July



Source: Thomson Reuters and Janney Fixed Income Strategy.

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The House finalized legislation giving \$26 billion to states for Medicaid and support to school districts.

We revised our tobacco sector outlook to negative from cautious.

S & P placed the ratings of thirty-one tobacco bond issuers on Negative Credit Watch.

four percent tax free yield, with a positive real return, is more palatable than it would have been a year or more ago.

ONE BILL DOWN! AND TWO TO GO?

Most states and municipalities were pleased to see the House come back into session to finalize legislation giving \$26 billion to states to pay for Medicaid and aid to local school districts. Other bills are still hanging, with action unlikely until Congress comes back after Labor Day. A few months ago it seemed probable that Congress would extend BAB authorization beyond the scheduled December 31 sunset. Provisions in recent versions of the Jobs Bill would have allowed continued BAB issuance through 2012, although the federal subsidy would have been reduced. A BAB extension may still be in the cards, but the cloud of uncertainty has expanded. If BABs ended, with no new issues in 2011 and beyond, municipal borrowers would shift to tax free issuance, pushing supply higher, and prices potential lower. A provision was also included that would extend for another year the higher \$30 million bank qualification limit, up from \$10 million.

The other unknown is the status of the Bush era tax cuts, also set to sunset on December 31. With no action, the top federal tax bracket will go from the current 35% back to 39.6%, making tax free income more valuable, and potentially pushing yields lower. In any case we expect little news and modest volume for the remainder of the summer, but things should heat up after Labor Day.

Alan Schankel

JANNEY MUNICIPAL SECTOR REVIEW AND OUTLOOK

We have revised our outlook for the tobacco sector to negative from cautious, with recent Fitch downgrades and potential downgrades on the horizon from S&P. As noted in the table, returns for the sector have been strong for the past twelve months, but we may see a reversal of that trend in coming months. The sharp drop in the amount of the MSA payment made in April 2010, as well as a 9.3% consumption decline will pressure tobacco bond prices in the near future, especially for longer maturities. Please see our Tobacco Bond Sector Update below for additional information.

Alan Schankel

Janney Municipal Sector Outlook

| Sector | Janney Outlook | Last Month Change | Barclay's 12 Month Return | Key Sector Trends | Recent Janney Sector Review |
|----------------------|----------------|-------------------|---------------------------|--------------------------------------|-----------------------------|
| Municipal Bond Index | - | - | 9.15% | Barclay's Muni Index, 46k issues | - |
| State Government | Stable | Same | 7.45% | Taxing power = more security | Feb 12 MBMM |
| Local Government | Cautious | Same | 8.41% | Less support from states | - |
| School Districts | Stable | Same | - | State programs offer strong security | May 10 FIW |
| Airports | Cautious | Same | 10.68% | Passenger and freight down YoY | Feb 8 FIW |
| Higher Education | Cautious | Same | 9.44% | Low rated privates face pressure | Jan 25 FIW |
| Health Care | Cautious | Same | 14.04% | Falling reimburse from new reform | Apr MBMM |
| Housing | Stable | Same | 10.42% | Single family is stronger than multi | Jun MBMM |
| Public Power (Elec.) | Stable | Same | 9.18% | Essential purpose, but volatile | Jun 21 FIW |
| Tobacco | Negative | Cautious | 16.64% | Negative rating pressure continues | This MBMM |
| Toll Facilities | Stable | Same | 10.68% | Traffic down, DS cov. strong | March MBMM |
| Water and Sewer | Stable | Same | 9.04% | Essential purpose | Apr 19 FIW |

Source: Janney Fixed Income Strategy.

TOBACCO BOND UPDATE

Standard and Poor's placed the ratings for 122 tranches of thirty-one tobacco bond issuers on Negative Credit Watch on August 4. Although the rating agency has a negative outlook for most tobacco bonds they rate, the elevation to Negative CreditWatch could lead to downgrades. In September 2009, after a similar action, S&P ended up affirming ratings for fifty-seven tranches and downgraded nineteen. Fitch undertook a similar review in June of this year which ended with several downgrades.

S&P expects to complete their review of the thirty-one issuers by early November.

Many of the states which issued tobacco bonds have slowed demand by raising cigarette taxes and by prohibiting smoking in public places..

Most tobacco bonds are in the BBB rating level and below, depending upon maturity.

We now have a negative view on the sector since revenues from the Master Settlement Agreement (MSA) are coming in much lower than earlier projections. Many of the very states which issued the bonds have slowed demand by raising cigarette taxes and prohibiting smoking in public places.

S&P expects to complete their review of the thirty-one issuers by early November. The table includes some of the larger issuers undergoing S&P's scrutiny, along with ratings from Fitch and Moody's where applicable.

Significant Tobacco Issues with Ratings

| Tobacco Issuer/Issue Details | Moody's | S&P | Fitch |
|--|---------|-----------|-----------|
| Buckeye Tobacco Settlement Corp (Ohio) | | | |
| Serials 2011 through 2017 | Baa3 | BBB (NO) | BBB+ (S) |
| Turbo Terms 2024, 2030, 2034, 2042, 2047 | Baa3 | BBB (NW) | BBB- (NO) |
| Cvt Turbo Terms 2037 | Baa3 | BBB (NW) | BBB- (NO) |
| 1st and 2nd Sub CABs due 2047 and 2052 | NR | NR | BB (NO) |
| Children's Trust (Puerto Rico) | | | |
| Serials 2011 through 2014 | Baa3 | BBB (NO) | BBB+ (S) |
| Turbo Terms 2033, 2039, 2043 | Baa3 | BBB (NW) | BBB+ (NO) |
| 1st Sub CABs 2050 | NR | NR | BBB (NO) |
| 2nd Sub CABs 2055 | NR | NR | BBB- (NO) |
| Sub CABs 2057 | NR | NR | B+ (NO) |
| Golden State Tobacco Securitization Corp (CA) | | | |
| Serials 2011 through 2017 | Baa3 | BBB (NO) | BBB+ (S) |
| Turbo Terms 2027 | Baa3 | BBB (NW) | BBB (NO) |
| Turbo Terms 2033 and 2047 | Baa3 | BBB (NW) | BBB- (NO) |
| Cvt Turbo Terms 2037 | Baa3 | BBB (NW) | BBB- (NO) |
| Tobacco Settlement Financing Corp (NJ) | | | |
| Serials 2011 through 2019 | Baa3 | BBB (NO) | NR |
| Turbo Terms 2023, 2026, 2029, 2034, 2041 | Baa3 | BBB (NW) | NR |
| 1st Sub CABs 2041 | NR | BB (NW) | NR |
| 2nd Sub CABs 2041 | NR | BB- (NW) | NR |
| TSASC Inc. (New York City) | | | |
| Turbo Terms 2022 | NR | BBB (NW) | BBB+ (S) |
| Turbo Terms 2026 | NR | BBB (NW) | BBB+ (NO) |
| Turbo Terms 2034 and 2042 | NR | BBB (NW) | BBB (NO) |
| Tobacco Settlement Financing Corp (RI) | | | |
| Turbo Terms 2023 | Baa3 | BBB (NW) | BBB+ (S) |
| Turbo Terms 2032 and 2042 | Baa3 | NBBB (NW) | BBB+ (NO) |
| 1st Sub CABs 2052 | NR | BB (NW) | NR |
| 2nd Sub CABs 2052 | NR | BB- (NW) | NR |
| 3rd Sub CABs 2052 | NR | NR | NR |
| Tobacco Settlement Financing Corp (Virginia) | | | |
| Turbo Terms 2046 (taxable) and 2047 | Baa3 | BBB (NW) | NR |
| Cvt Turbo Terms 2046 | Baa3 | BBB (NW) | NR |
| 1st Sub CABs 2047 | NR | BB (NW) | NR |
| 2nd Sub CABs 2047 | NR | BB- (NW) | NR |

NR= Non rated; NO= Negative Outlook; NW= Negative Watch- Downgrade possible; S= Stable.

Source: Bloomberg, S&P and Janney Fixed Income Strategy.

Phillip Morris, R J Reynolds, Lorillard and Brown & Williamson (subsequently merged into R J Reynolds) are the "Original Participating Manufacturers."

Cigarette sales in the US have been declining steadily since 1981.

Declining cigarette sales are largely responsible for declines in actual MSA payments.

Background of the MSA Agreement

In 1998 the attorneys general of 46 states as well as the District of Columbia and several territories reached an agreement (MSA) with tobacco companies to accept a stream of payments perpetually in exchange for settlement of past and future smoking related claims. Phillip Morris, R J Reynolds, Lorillard and Brown & Williamson (subsequently merged into R J Reynolds) are the "Original Participating Manufacturers" (OPMs) who executed the initial agreement. About fifty-five Subsequent Participating Manufacturers (SPMs) have also joined the agreement.

The payments from the tobacco manufacturers are based on a specified annual amount - \$8 billion each year from 2004 to 2008 and \$9 billion each year thereafter. Adjustments are made based on inflation, consumption and market share of participating manufacturers. Although inflation has had a positive impact on the payment amount,

it has been more than offset by declining cigarette consumption in the United States. Cigarette sales in the US have been declining steadily since 1981. The annual rate of decline from 2000 to 2008 has averaged about 3.4%, but in 2009 sales dropped 9.3%.

Declining cigarette sales are largely responsible for declines in the actual MSA payments. For example the \$9 billion base amount scheduled for 2010 (based on 2009 data), was actually \$6.4 billion, well below initial estimates. Increases in cigarette taxes, at both the federal and state level, an

increase in the number of states and localities limiting smoking in public places as well as general spending decreases by consumers resulting from the Great Recession have taken a toll on consumption which in turn reduced tobacco company payments under the MSA. Additionally, tobacco companies and the states are disputing certain amounts based on whether states have followed through on requirements that the states enact and diligently enforce legislation to bring non-participating manufacturers into participation, so participating manufacturers are not disadvantaged.

Based on the splits included in the MSA, each state receives a set percentage of the total payment (there is some variation from 2008 to 2017 based on individual states' contribution to achieving initial settlement). For example New York receives 12.76% while Rhode Island gets only 0.72%. In 2010, this translated into about \$760 million each for California and New York and \$50 million for Hawaii and Rhode Island.

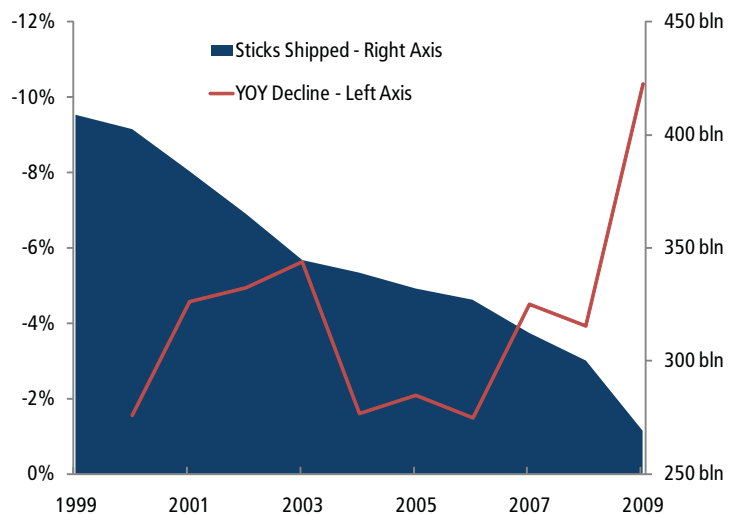
Beginning in 2002, several states (in the case of New York and California, counties also) securitized some or all of these anticipated revenue streams. Rather than wait for a payment each year, the states set up separate legal entities with names like Tobacco Financing Corp., and used them to

MSA Payments

| Year | Base Amount | Actual Payment |
|------|------------------|------------------|
| 2005 | \$ 8,000,000,000 | \$ 6,375,972,583 |
| 2006 | 8,000,000,000 | 5,832,686,276 |
| 2007 | 8,000,000,000 | 6,070,161,916 |
| 2008 | 9,000,000,000 | 6,990,917,084 |
| 2009 | 9,000,000,000 | 7,647,315,603 |
| 2010 | 9,000,000,000 | 6,393,360,364 |

Source: National Association of Attorneys General and Janney FIS.

Annual Cigarette Shipments and YoY Change



Source: Barclay's and Janney FIS.

Issuers are required to use all MSA revenues to redeem bonds. If MSA revenues flowed as initially anticipated, bonds would be called before their maturity.

The three Original Participating Manufacturers, which accounted for about 83% of the U S market for cigarettes in 2010, are rated in the BBB category.

In most cases it is unlikely that payment default is imminent. It may take years or in some cases decades before any actual default occurs.

borrow large amounts of money immediately, with debt service – future principal and interest payments – secured by the annual payments. Most of these issues were structured using a unique “turbo” concept for retiring bonds. Issuers are required to use all MSA revenues pledged against the bonds, to redeem bonds. If MSA revenues from tobacco companies flowed as initially anticipated, bonds would be called in well before their maturity.

Consider as example TASAC Inc, New York City’s tobacco settlement financing vehicle, which borrowed \$1.35 billion in 2006. The first of four maturities had a scheduled maturity date of June 1,

TSAC Redemption Flows

| Date | Annual SF | Scheduled | | | Actual | |
|----------|-------------|-------------|--------------|--------------|--------------|--------------|
| | | Cum SF | Turbo | Cum Turbo | Annual Call | Cum Call |
| 6/1/2006 | \$8,685,000 | \$8,685,000 | \$29,465,000 | \$29,465,000 | \$19,945,000 | \$19,945,000 |
| 6/1/2007 | 2,755,000 | 11,440,000 | 21,500,000 | 50,965,000 | 16,705,000 | 36,650,000 |
| 6/1/2008 | 5,085,000 | 16,525,000 | 25,390,000 | 76,355,000 | 19,315,000 | 55,965,000 |
| 6/1/2009 | 10,680,000 | 27,205,000 | 27,760,000 | 104,115,000 | 23,855,000 | 79,820,000 |
| 6/1/2010 | 12,035,000 | 39,240,000 | 30,095,000 | 134,210,000 | 8,385,000 | 88,205,000 |

Source: Official Statements, Bond Disclosure and Janney Fixed Income Strategy.

2022, with a sinking fund running from 2006 to 2022, the final maturity date. The maturity also has a “turbo” schedule, which anticipated receipt of annual revenues exceeding amounts needed for the sinking fund, with all bonds of that maturity being redeemed by June 1, 2015 through turbo redemptions. As the table shows, the flow of revenues has been more than sufficient to meet sinking fund redemptions, \$88.2 million through FY 2010, compared to the \$39.2 million sinking fund requirement. However, the pace fell well behind the turbo estimate of \$134 million. The concern going forward is that if cigarette consumption continues to decline at a quicker pace than anticipated, revenues will be insufficient to meet not only turbo payments, but perhaps sinking fund payments and final maturity. In the case of the TASAC issue, there are three subsequent maturities so even if the 2022 maturity is paid on time, which seems likely at his point, other, longer maturities may be stressed.

The MSA payment stream is pledged until all bonds are paid off, so even if the schedule slips and a maturity is missed, or more seriously an interest payment is missed, either of which is a default event, revenues will continue to support the bonds. The more likely worse scenario is that some bonds will be paid off after their final maturity – of course that assumes there are still smokers in the United States. Another important risk is with the tobacco companies themselves. The three Original Participating Manufacturers, which accounted for about 83% of the U S market for cigarettes in 2010, are rated in the BBB category. There are provisions in the MSA to assure that revenues continue to flow, but the ultimate outcome of a bankruptcy filing is never certain.

Each issuer of tobacco bonds has differing structures. The outcome for some maturities may be more assured than for others. It’s possible that issuers may seek to restructure outstanding issues. In most cases the underlying states or issuing entities have no legal responsibility to make payments on the bonds beyond the dedication of already agreed upon amounts from the MSA revenue stream. One exception is an issue of the State of New York Tobacco Settlement Financing Corp. which includes provisions whereby if MSA receipts are not sufficient to pay interest or principal, the state will appropriate necessary amounts to pay bondholders. In most cases it is unlikely that payment default is imminent. It may take years or in some cases decades before any actual default occurs.

Alan Schankel

The Pennsylvania Municipalities Financial Recovery Act of 1987, P.L. 246, No. 47 is usually referred to as "Act 47."

Act 47 empowers the PA Department of Community and Economic Development (DCED) to declare municipalities as financially distressed.

After a distressed designation is made municipalities are eligible to receive assistance in several forms. Emergency no interest loans from the state and grants if approved allow participants to continue to meet debt payments.

PA MUNICIPALITIES FINANCIAL RECOVERY ACT OF 1987 OR "ACT 47"

- Act 47 is an assistance plan which aids financially distressed PA municipalities.
- We believe it is a credit positive in the short term but its effectiveness is limited in helping a municipality regain its long term economic viability.
- There have been twenty-four Act 47 participants and five have had the determination rescinded.

What is Act 47?

The Pennsylvania Municipalities Financial Recovery Act of 1987 or "Act 47" as it is usually referred to, is an assistance plan which aids Commonwealth of Pennsylvania municipalities which are officially designated as distressed. From a policy perspective Act 47 offers aid to second class cities and below which are negatively affected by forces such as short term swings in the business cycle or which experience other damaging longer term economic forces. The aid, which is available in several forms, allows the government units to continue to provide their day to day government services. Legally, the statute empowers the PA Department of Community and Economic Development (DCED) to declare municipalities as financially distressed. This designation allows every Pennsylvania county, city, borough, incorporated town, township and home rule municipal, with a few exceptions, access to a menu of support after it is determined to be fiscally troubled. They must meet at least one of the below criteria to qualify as an Act 47 distressed municipality.

Act 47 Distressed Determination Qualifications

Qualifications

- The municipality has maintained a deficit over a three-year period, with a deficit of one percent or more in each of the previous fiscal years.
- The municipality's expenditures have exceeded revenues for a period of three years or more.
- The municipality has defaulted on payment of principal or interest on any of its bonds, notes, or rental due any authority.
- The municipality has missed a payroll for thirty days.
- The municipality has failed to make required payments to judgment creditors for thirty days beyond the date of the recording of the judgment.
- The municipality, for a period of at least thirty days beyond the due date, has failed to forward taxes withheld on the income of employees, or has failed to transfer employer or employee contributions for Social Security.
- The municipality has accumulated and has operated at a deficit equal to five percent or more of its revenues for each of two successive years.
- The municipality has failed to make the budget payment of its minimum municipal obligation, as required by the Municipal Pension Plan Funding Standard and Recovery Act, during the fiscal year for which the payment was budgeted and failed to take action within that time period to make required payments.
- The municipality has sought to negotiate resolution or adjustment of a claim in excess of thirty percent against a fund or budget and has failed to reach an agreement with creditors.
- The municipality has filed a municipal debt readjustment plan pursuant to Chapter 9 of the U.S. Bankruptcy Code.
- The municipality has experienced a decrease in a quantified level of municipal service from the preceding fiscal year, which has resulted from the municipality reaching its legal limit in levying real estate taxes for general purposes.

Source: PA Municipal Financial Recovery Act of 1987, P.L. 246, No. 47.

After the distressed designation is made municipalities are eligible to receive assistance in several forms. In the short term the goals of Act 47 are to allow municipalities to continue to provide for the health, safety and welfare of its residents by continuing to provide daily and essential public sector services. If approved, emergency no interest loans and grants allow participants to continue to meet debt payments and other creditor obligations. Other crucial assistance exists in the appointment, by DCED, of the recovery coordinator and the implementation of the coordinator's recovery plan. The recovery plan lays out in detail how the available assistance and other modifications will help the municipality get back to sound economic ground.

If a municipality fails to adopt or implement an Act 47 financial plan Pennsylvania can withhold state appropriated funds.

From a short term perspective Act 47 generally succeeds and it has been a credit positive for bond-holders.

Philadelphia is the only Pennsylvania municipality not subject to Act 47.

Examples of Assistance Available from Act 47

Available Assistance

- Appointment of a recovery coordinator, who creates a recovery plan.
- Emergency grants and no interest loans.
- Revenue enhancements such as the ability to levy a non-resident wage tax.
- Assistance with negotiating new collective bargaining contracts
- Priority position for all PA funded economic and community development programs.

Source: PA Municipal Financial Recovery Act of 1987, P.L. 246, No. 47 and Janney FIS.

What if a Municipality Ignores Act 47?

The question surfaces, "What happens if a municipality ignores Act 47?" There have been some special cases in the way the Commonwealth has handled Act 47 oversight controls (See Philadelphia, Pittsburgh below) and there has also been resistance from municipalities to Act 47 oversight. If a municipality fails to adopt or implement an Act 47 financial plan Pennsylvania can withhold state appropriated or other state funds as explained in Section 251 of the Act, "...the municipality shall not receive a grant, loan, entitlement or payment from the Commonwealth or any of its agencies." So, if a municipality ignores Act 47 participation or ignores the recommendations of the coordinator it will not be able to take advantage of the program's assistance and it will also not receive other of state disbursements. This is strong incentive for participation in Act 47 in our view.

Effectiveness of Act 47

From a short term perspective Act 47 generally succeeds in accomplishing the goals originally intended. With the financial assistance and through the leadership of the designated coordinators Act 47 municipalities have continued to deliver everyday government services and been able to pay debts and creditors. The program has been a credit positive from bond-holders' perspectives because cities, especially those with outstanding bonds such as Scranton and Reading, received a "second chance" to reestablish policies, update procedures and consolidate debts.

There are however, some criticisms of Act 47 especially from a long term effectiveness perspective. These criticisms are important from a continued sustainability and growth outlook. Many Act 47 members share the same symptoms of financial illness. There is typically a disparity between a demand for government services and the availability of resources in most participating municipalities, in that the demand is high but resources are low. The local Pennsylvania tax structure is not set up to recognize this imbalance of demand. The tax structure is locally, instead of regionally focused. Additionally, some elements of Pennsylvania law restrict government's options to levy taxes or do not consider a municipality's lack of ability to raise additional revenue when awarding binding arbitration contracts. (Author's note- please see the Pennsylvania Economy League's 2003 study titled, "Structuring Healthy Economies" for more details about the structural symptoms of distress affecting Pennsylvania municipalities.) There are several of these structural problems, not to mention rising health care and other post employment benefit costs (OPEBs), that the Commonwealth's governments currently face. It is likely that there is some accuracy to these criticisms as of the twenty-four municipalities (see page 9 for a list) which have entered the Act 47 program only five have had the determination rescinded.

Philadelphia and Pittsburgh

Philadelphia (A1/BBB/A-) is the only Pennsylvania municipality not subject to Act 47. The Pennsylvania General Assembly suspended the provisions of Act 47, in 1991, due to the extreme financial difficulties Philadelphia was experiencing which Act 47 was not capable of solving. A replacement oversight Act was created after a long and difficult negotiation between state, regional, and city leaders. Philadelphia is instead subject to the Pennsylvania Intergovernmental Cooperation Authority Act (PICA Act) for Cities of the First Class, Act 6 of 1991. In addition, customized legislation was passed in 2004 for the City of Pittsburgh (A1/BBB/A). The PA General Assembly enacted the Intergovernmental Cooperation Authority Act for Cities of the Second Class or Act 11 of 2004. Act 11 is slightly different than the PICA Act because Act 11 operates in conjunction with the provisions of Act 47. Pittsburgh's Act 11 contains an important requirement worth mentioning, in that Pittsburgh requires the Governor's authorization to file for Chapter 9.

Chapter 9 municipal bankruptcies are a very rare event.

Changes from the Dodd-Frank reform will only moderately alter the municipal market.

The reform creates an Office of Municipal Securities within the SEC.

Westfall Township Filed for Chapter 9 in April 2009

Chapter 9 municipal bankruptcies are a very rare event. There has been an average of only eight a year nationally since 1934. Municipal bankruptcy law differs state to state but government units in Pennsylvania are authorized under state law to file for Chapter 9 bankruptcy protection. Only three municipalities have filed for Chapter 9 bankruptcy in the Commonwealth since 1980. The Borough of Shenandoah, which was part of Act 47 and had its determination later rescinded filed and the North and South Shenango Joint Municipal Authority also filed.

The most recent Pennsylvania bankruptcy filing was executed by Westfall Township, a community of 2,400 residents in northeastern Pennsylvania. The Township filed for Chapter 9 bankruptcy protection in April 2009 just four days prior to receiving an Act 47 determination and was assigned a Recovery Plan Coordinator. Westfall sought Chapter 9 protection in response to on a \$20 million claim brought against it by a developer. Through the Chapter 9 negotiations the Township reduced its penalty down to \$6 million, which is expected to be paid in \$75,000 quarterly payments over 20 years. The Township also agreed to construct a sewage pumping station. Westfall did not have any outstanding municipal bonds but bank debt payments were suspended and the term extended for ten years at the same interest rate. The recovery plan, created by the Act 47 coordinator expects Westfall should be able to return to a positive operating balance by 2012. To facilitate this goal a special property tax millage was assessed for 2010 and 2011. **Tom Kozlik**

WALL STREET REFORM ACT CHANGES TO THE MUNICIPAL MARKET

On July 21, 2010 President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. Its changes to the financial system overall were extensive while adjustments to municipal market, its investors, issuers and other participants will be moderate. The changes from the Dodd-Frank Reform package, mainly in the form of additional oversight, which will most substantially affect the municipal market include:

- Requires the registration of municipal advisors, or advisors to municipal bond issuers.
- Creates an Office of Municipal Securities within the SEC.
- Appoints a majority of members independent of municipal dealers to the Municipal Securities Rulemaking Board (MSRB) to better represent investors.
- Creates an Office of Credit Ratings within the SEC, requires the staff have knowledge and expertise in the municipal sector.
- Requires the SEC submit a study about standardizing rating terminology across asset classes and among all rating agencies.
- Does NOT require rating agencies to authorize the inclusion of ratings in municipal offering documents.
- The Government Accountability Office is required to submit three municipal market related studies to Congress:
 - 1) Compare municipal and corporate securities with recommendations concerning the repeal or retention of the Tower Amendment;
 - 2) Operational market analysis to improve transparency, liquidity and fairness;
 - 3) Recommendations for the need and process of funding the Governmental Accounting Standards Board (GASB)
- Includes significant changes to the regulatory treatment of asset backed securities, a few which affect the municipal market, with exemptions for some housing bonds.
- Will require dealers to disclose and certify that issuers understand the material risks and pricing of derivatives and interest rate swaps.

Tom Kozlik

Janney Fixed Income Strategy thanks Antonina Peshkova for her contribution.

MUNICIPAL BOND MARKET MONTHLY

August 13, 2010



Status of Act 47 Distressed Municipalities

| City | County | Population | Filed for Distressed Determination | Distressed Determination Rescission | Examples of State Assistance | Long Term Bonds (Direct) | Moody's Rating | S&P Rating | Fitch Rating |
|----------------------------|------------|------------|------------------------------------|-------------------------------------|---------------------------------------|--------------------------|----------------|------------|--------------|
| City of Reading | Berks | 80,000 | 11/12/09 | Active | Cut expenses, Rev enhance | Yes | Baa1 | - | - |
| Westfall Township | Pike | 2,400 | 4/14/09 | Active | Filed Chap. 9 on 4/10/09 | No | - | - | - |
| City of New Castle | Lawrence | 26,300 | 1/5/07 | Active | Cut exp, \$750k loan, \$574k grant | Yes | No underlying | - | - |
| City of Nanticoke | Luzerne | 10,900 | 5/26/06 | Active | \$700k loan, \$346k grant | No | - | - | - |
| Township of Plymouth | Luzerne | 6,500 | 7/27/04 | Active | \$526k loan | No | WR | - | - |
| City of Pittsburgh | Allegheny | 311,000 | 12/29/03 | Active | Various | Yes | A1 | BBB | A |
| Borough of West Hazleton | Luzerne | 23,000 | 3/27/03 | Active | \$52k grant | No | - | - | - |
| Borough of Greenville | Mercer | 6,300 | 5/8/02 | Active | \$660k loan, \$200k grant | Yes | No underlying | - | - |
| City of Chester | Delaware | 36,000 | 4/6/95 | Active | \$713k grant | No | - | - | - |
| Borough of Millbourne | Delaware | 900 | 1/7/93 | Active | No details | No | - | - | - |
| City of Johnstown | Cambria | 23,900 | 8/21/92 | Active | 120k grant | Yes | No underlying | - | - |
| City of Scranton | Lackawanna | 72,400 | 1/10/92 | Active | \$2 mill loan, \$400k grts, new taxes | Yes | - | BBB- | - |
| City of Duquesne | Allegheny | 7,300 | 6/20/91 | Active | No details | Yes | - | BBB- | - |
| Borough of Rankin | Allegheny | 2,300 | 1/9/89 | Active | No details | No | - | - | - |
| Borough of Franklin | Cambria | 7,200 | 7/26/88 | Active | \$90k grant | No | - | - | - |
| Borough of Braddock | Allegheny | 2,900 | 6/15/88 | Active | No details | No | - | - | - |
| City of Clairton | Allegheny | 8,400 | 1/19/88 | Active | \$411k grant | No | - | - | - |
| City of Aliquippa | Beaver | 11,700 | 12/22/87 | Active | \$31k grant | No | - | - | - |
| City of Farrell | Mercer | 6,000 | 11/12/87 | Active | \$187k grant | No | - | - | - |
| Borough of Shenandoah | Schuylkill | 5,600 | 5/20/88 | 4/16/93 | No details | No | - | - | - |
| Borough of Ambridge | Beaver | 7,700 | 4/10/90 | 4/16/93 | No details | Yes | No underlying | - | - |
| Borough of Wilkesburg | Allegheny | 19,100 | 1/19/88 | 11/10/98 | No details | Yes | No underlying | - | - |
| Borough of East Pittsburgh | Allegheny | 2,000 | 11/13/92 | 12/17/99 | No details | No | - | - | - |
| Borough of North Braddock | Allegheny | 5,800 | 5/22/95 | 4/11/03 | No details | No | - | - | - |

Source: Census Data, Financial Statements, PA DCEd, Moody's, S&P, Fitch, and Janney F15.

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Select Recent Rating Outlook and Rating Changes (Aug 12, 2010)

| Issuer | State | Recent Rating Action | Date | Underlying Rating(s) | Notes |
|------------------------------------|-------|---|-----------------|----------------------|--|
| Bell (City of) | CA | S&P lowered to BB from A- | August 10, 2010 | NR/BB/A+ | Management uncertainty and lower property value |
| Puerto Rico (Commonwealth) | PR | Moody's placed on Negative Outlook | August 10, 2010 | A3/BBB- | Lower employee pension funding levels |
| Chicago (City of) | IL | Moody's lowered to Aa3 from Aa2 | August 6, 2010 | Aa3/AA-/AA | Pressured general fund, use of reserves |
| Chicago (City of) | IL | Fitch Lowered to AA from AA+ | August 5, 2010 | Aa2/AA-/AA | Declining tax revenue and budget gaps |
| Philadelphia Gas Works (Senior) | PA | S&P raised Senior to BBB+ from BBB- | August 5, 2010 | Baa2/BBB+/BBB- | Improving collections and metrics |
| Philadelphia Gas Works (Sub) | PA | S&P raised Sub to BBB from BB+ | August 5, 2010 | Baa3/BBB/BBB- | Improving collections and metrics |
| Lewistown Hospital | PA | Moody's lowered to Baa3 from Baa2 | August 4, 2010 | Baa3/BBB- | 5 years of admissions declines and market share declines |
| 31 Tobacco Sett Backed Bond Issues | Var | S&P place on Negative Watch | August 4, 2010 | Various Ratings | Falling cigarette consumption |
| Good Samaritan Hospital | PA | S&P lowered to BB+ from BBB- | August 3, 2010 | Ba1/BB+ | Weak operating results, behind budget, light dsc |
| Miami-Dade County | FL | Moody's lowered outlook to negative from stable | August 3, 2010 | Aa3/AA-/AA | Weak economy and property tax limits |
| Alaska Int. Airport System | AK | Fitch lowered to A+ from AA- | July 22, 2010 | Aa3/WR/A+ | Heightened sensitivity to cargo operations. |
| Lackawanna County | PA | S&P rating withdrawn, request from issuer | July 21, 2010 | Baa1/WR/WR | Issuer requested. |
| Lackawanna County | PA | S&P lowered to BB from BBB- | July 20, 2010 | Baa1/BB/WR | Continued structural budget imbalance. |

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

MUNICIPAL BOND MARKET MONTHLY

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State and Other Select Issuer Ratings (Aug 12, 2010)

| 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 | NR | - | - |
| Alaska | Aa1 | Stable | 4/16/2010 | AA+ | Stable | 3/27/2008 | AA+ | Stable | 4/5/2010 |
| Arizona (*) | Aa2 | Negative | 4/16/2010 | A+ | Negative | 12/23/2009 | NR | - | - |
| Arkansas | Aa1 | Stable | 4/16/2010 | AA | Stable | 1/10/2003 | NR | - | - |
| California | A1 | Stable | 4/16/2010 | A- | Negative | 1/14/2010 | A- | Stable | 4/5/2010 |
| Colorado (*) | NR | - | - | AA | Stable | 7/10/2007 | NR | - | - |
| Connecticut | Aa2 | Stable | 4/16/2010 | AA | Stable | 9/26/2003 | AA | Stable | 6/3/2010 |
| Delaware | Aaa | Stable | - | AAA | Stable | 2/22/2000 | AAA | Stable | 4/13/2006 |
| Dist. of Columbia | Aa2 | Stable | 4/16/2010 | A+ | Stable | 6/6/2007 | AA- | Stable | 4/5/2010 |
| Florida | Aa1 | Stable | 4/16/2010 | AAA | Negative | 1/14/2009 | AAA | Negative | 4/5/2010 |
| Georgia | Aaa | Stable | - | AAA | Stable | 7/29/1997 | AAA | Stable | 4/13/2006 |
| Hawaii | Aa1 | Negative | 4/16/2010 | AA | Stable | 1/29/2007 | AA+ | Negative | 4/5/2010 |
| Idaho (*) | Aa1 | Stable | 4/16/2010 | AA | Stable | 7/20/2009 | AA- | Stable | 2/13/2007 |
| Illinois | A1 | Stable | 6/4/2010 | A+ | Negative | 12/10/2009 | A | Negative | 6/11/2010 |
| Indiana (*) | Aaa | Stable | 4/16/2010 | AAA | Stable | 7/18/2008 | AA+ | Stable | 4/5/2010 |
| Iowa (*) | Aaa | Stable | 4/16/2010 | AAA | Stable | 9/11/2008 | AAA | Stable | 4/5/2010 |
| Kansas (*) | Aa1 | Stable | 4/16/2010 | AA+ | Stable | 5/20/2005 | - | - | - |
| Kentucky (*) | Aa1 | Negative | 4/16/2010 | AA- | Stable | 6/23/2009 | AA | Negative | 4/5/2010 |
| Louisiana | Aa2 | Stable | 4/16/2010 | AA- | Stable | 10/9/2009 | AA | Stable | 4/5/2010 |
| Maine | Aa2 | Stable | 4/16/2010 | AA | Negative | 3/10/2010 | AA+ | Stable | 4/5/2010 |
| Maryland | Aaa | Stable | - | AAA | Stable | 5/7/1992 | AAA | Stable | 4/13/2006 |
| Massachusetts | Aa1 | Stable | 4/16/2010 | AA | Stable | 3/15/2005 | 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 | Aa1 | Stable | 4/16/2010 | AA+ | Stable | 6/23/2006 | AA+ | Stable | 4/5/2010 |
| New Hampshire | Aa1 | Stable | 4/16/2010 | AA | Stable | 12/4/2003 | AA+ | Stable | 4/5/2010 |
| New Jersey | Aa2 | Stable | 4/16/2010 | AA | Stable | 7/19/2005 | AA | Stable | 4/5/2010 |
| New Mexico | Aaa | Stable | 4/16/2010 | AA+ | Stable | 2/5/1999 | NR | - | - |
| New York | Aa2 | Stable | 4/16/2010 | AA | Stable | 9/14/2004 | AA | Stable | 4/5/2010 |
| North Carolina | Aaa | Stable | 1/12/2007 | AAA | Stable | 6/25/1992 | AAA | Stable | 4/13/2006 |
| North Dakota (*) | Aa1 | Stable | 4/16/2010 | AA+ | Stable | 3/17/2009 | NR | - | - |
| Ohio | Aa1 | Negative | 4/16/2010 | AA+ | Negative | 9/23/2009 | AA- | Stable | 4/5/2010 |
| Oklahoma | Aa2 | Stable | 4/16/2010 | AA+ | Stable | 9/5/2008 | AA+ | Stable | 4/5/2010 |
| Oregon | Aa1 | Stable | 4/16/2010 | AA | Stable | 8/23/2007 | AA+ | Stable | 4/5/2010 |
| Pennsylvania | Aa1 | Negative | 4/16/2010 | AA | Stable | 11/6/1998 | AA+ | Stable | 4/5/2010 |
| Puerto Rico | A3 | Negative | 8/10/2010 | BBB- | Stable | 5/22/2007 | NR | - | - |
| Rhode Island | Aa2 | Stable | 4/16/2010 | AA | Negative | 3/9/2009 | AA | Negative | 4/5/2010 |
| South Carolina | Aaa | Stable | 3/23/2007 | AA+ | Stable | 7/11/2005 | AAA | Stable | 4/13/2006 |
| South Dakota (*) | A1 | Stable | - | AA | Stable | 12/21/2006 | AA | Stable | 4/5/2010 |
| Tennessee | Aaa | Stable | 4/16/2010 | AA+ | Stable | 10/12/2006 | AAA | Stable | 4/5/2010 |
| Texas | Aaa | Stable | 4/16/2010 | AA+ | Stable | 8/10/2009 | AAA | Stable | 4/5/2010 |
| Utah | Aaa | Stable | - | AAA | Stable | 6/7/1991 | AAA | Stable | 4/13/2006 |
| Vermont | Aaa | Stable | 2/2/2007 | AA+ | Stable | 9/11/2000 | AAA | Stable | 4/5/2010 |
| Virginia | Aaa | Stable | 5/27/2004 | AAA | Stable | 11/11/1992 | AAA | Stable | 4/13/2006 |
| Washington | Aa1 | Stable | 4/16/2010 | AA+ | Stable | 11/12/2007 | AA+ | Stable | 4/5/2010 |
| West Virginia | Aa1 | Stable | 7/9/2010 | AA | Stable | 8/21/2009 | AA | Positive | 4/5/2010 |
| Wisconsin | Aa2 | Stable | 4/16/2010 | AA | Stable | 8/15/2008 | AA | Stable | 4/5/2010 |

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

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Municipal Credit Rating Scale and Definitions

| | Rating Agency | | | Definition |
|----------------------|---------------|------|--|--|
| | Moody's | S&P | Fitch | |
| Investment Grade | Aaa | AAA | AAA | Exceptionally strong credit quality and minimal default risk. |
| | Aa1 | AA+ | AA+ | Upper medium grade and subject to low credit risk. |
| | Aa2 | AA | AA | Upper medium grade and subject to low credit risk. |
| | Aa3 | AA- | AA- | Upper medium grade and subject to low credit risk. |
| | A1 | A+ | A+ | Strong credit quality and subject to low default risk. |
| | A2 | A | A | Strong credit quality and subject to low default risk. |
| | A3 | A- | A- | Strong credit quality and subject to low default risk. |
| | Baa1 | BBB+ | BBB+ | Subject to moderate risk and possess some speculative characteristics. |
| | Baa2 | BBB | BBB | Subject to moderate risk and possess some speculative characteristics. |
| Baa3 | BBB- | BBB- | Subject to moderate risk and possess some speculative characteristics. | |
| Sub-Investment Grade | Ba1 | BB+ | BB+ | Weak credit quality with speculative elements and substantial credit risk. |
| | Ba2 | BB | BB | Weak credit quality with speculative elements and substantial credit risk. |
| | Ba3 | BB- | BB- | Weak credit quality with speculative elements and substantial credit risk. |
| | B1 | B+ | B+ | Very weak credit quality, very speculative with high credit risk. |
| | B2 | B | B | Very weak credit quality, very speculative with high credit risk. |
| | B3 | B- | B- | Very weak credit quality, very speculative with high credit risk. |
| | Caa1 | CCC+ | CCC+ | Extremely weak credit quality and subject to very high credit risk. |
| | Caa2 | CCC | CCC | Extremely weak credit quality and subject to very high credit risk. |
| | Caa3 | CCC- | CCC- | Extremely weak credit quality and subject to very high credit risk. |
| | Ca | CC | CC+ | Highly speculative and are in or near default with some prospect for recovery. |
| | | C | CC | Lowest class of rated bonds and may be in default with little prospect for recovery. |
| | | | CC- | Lowest class of rated bonds and may be in default with little prospect for recovery. |
| D | D | DDD | Issuer is in default and/or has failed to make a payment. | |

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

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Janney Municipal Bond Market Publications

| Title | Date | Publication | Notes |
|-------------------------------|--------------------|-------------|--|
| 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 |
| Pitt. & Allgh. Hotel Tax | March 3, 2010 | Credit | Review of the Hotel Room Excise Tax Rev Bonds |
| Recession Weakens States | February 12, 2010 | Monthly | IL, NJ, NY, RI, CA & PR experiencing fiscal stress |
| Harrisburg Update | February 4, 2010 | Note | City Council reviewing options including bankruptcy |
| Miami-Dade County | January 20, 2010 | Note | S&P lower its outlook to negative from stable |
| 2010 Municipal Outlook | January 1, 2010 | Outlook | Expectations for 2010 in the municipal market |
| 2009 Municipal Review | December 1, 2009 | Review | Review of municipal market in 2009 |
| New Jersey Tobacco | December 9, 2009 | Credit | Tobacco Settlement Asset-Backed Bonds |
| Long Island Power Auth | October 19, 2009 | Credit | Credit will remain strong in the near term |
| Miami-Dade County | October 15, 2009 | Credit | Stress in short intermediate term |
| Hackensack U Med Center | October 8, 2009 | Credit | Some near term questions |
| Review of 1H 2009 | September 29, 2009 | Note | A "New Normal" municipal market |
| Insured Bond Review | September 18, 2009 | Note | Your insured bonds may now be unrated |
| E. Stroudsburg, PA Stu Hsg | August 31, 2009 | Credit | Low cost, high qual ed should secure enrollment |
| Insurer Update | August 19, 2009 | Note | Only four insurers are rated above invest grade |
| Municipal Sect Scorecard | August 17, 2009 | Note | Janney's municipal sector outlooks |
| PA School District Intercept | July 27, 2009 | Credit | Intercept is based on PA's rating |
| Slippery Rock, PA Stu Hsg | July 23, 2009 | Credit | If enrollment is high, occupancy should remain high |
| Build America Bonds | July 21, 2009 | Note | Build America Bond Update |
| Florida Hurricane Fund | July 15, 2009 | Credit | Strong credit despite uncertainties |
| Maryland CDA Hsg | July 9, 2009 | Credit | Facing pressure but management is committed |
| Penn College of Tech, PA | April 3, 2009 | Credit | Expect continued favorable results |
| Local Government Outlook | April 1, 2009 | Note | Moody's assigned neg outlook to local govt |

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.

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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

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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.

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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.

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.

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