MUNICIPAL BOND MARKET MONTHLY

Contents:

- Market Commentary
- Build America Bonds
- Municipal Credit

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- **M/T Ratios have normalized, yields remain low, and January municipal new issuance hit a record level**
- **BAB spreads continue to tighten, structures evolve and the Obama Administration supports the extension of BABs, probably at a lower level of subsidy**
- **Our Municipal Sector Review summarizes Janney's sector by sector outlooks**
- **The recession is continuing to weaken state economies, pressuring ratings and widening credit spreads**
- **California, NYMTA, Harrisburg (PA) and BHAC were downgraded & the outlooks for Hawaii, Kansas, Minnesota and Miami-Dade Cty (FL) were revised to negative**

MARKET COMMENTARY

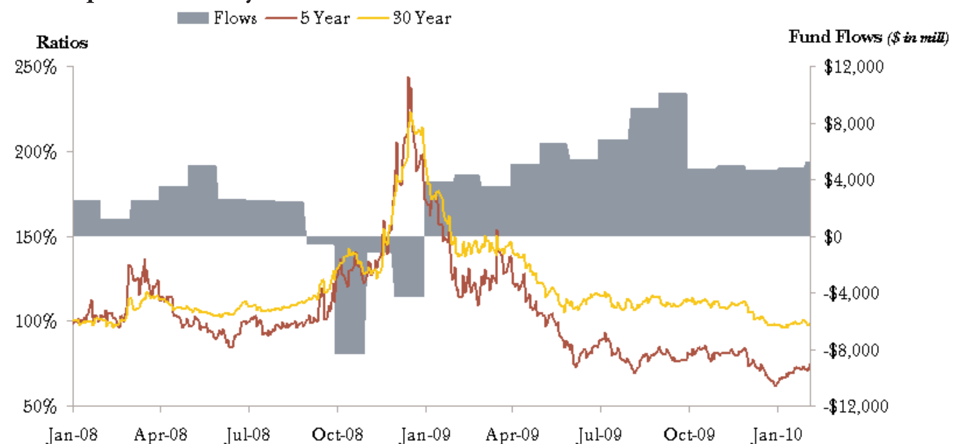
Ratios and Fund Flows

After a gradual decline from the highs of late 2008 and early 2009, municipal to Treasury ratios (M/T ratio) have returned to their pre-crisis levels, finding relative stability in the first month of the new year. The M/T ratio, calculated by dividing the yield on a municipal (usually triple A) by the yield on a like-maturity Treasury, is the model indication of the relative value of the municipal bond market in relation to the Treasury market. Where do we go from here? Let's step back a few years to gain some insight.

In December 2007 and well into 2008, the rating agencies began their relentless (and appropriate, if lagging) downgrade of the AAA ratings of most bond insurers. This, in turn, triggered concerns about auction rate securities, which beginning in February 2008 started to fail at auction. Liquidity in general began to contract, as the poison of sub-prime mortgages collided with a weakening real estate market to wreak havoc on financial company balance sheets. By the end of 2008 Lehman had failed, Uncle Sam bailed out mega-mortgage lenders Fannie Mae and Freddie Mac, and securities markets were in turmoil with the Dow and S&P 500 bottoming out in March 2009.

Back in the municipal market, a combination of growing concerns about the general creditworthiness of municipal issuers and reduced demand, as hedge funds and dealer balance sheets pulled support from the municipal market pushed tax free yields higher. A proxy for individual investors comes from fund flows which we frequently note in our commentaries. Beginning in September 2008, flows to tax free mutual funds turned negative as investors became net sellers. January 2009 saw flows reverse to positive as the high absolute and relative yields of tax free bonds attracted investors in droves. The below chart shows this flow reversal to negative territory and the coincident/resultant rise in ratios, a powerful illustration of the impact demand has on the tax free markets.

Municipal to Treasury Ratios and Fund Flows



Source: Bloomberg; MMA; Janney FI Strategy

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Tax free yields as high as 200% of Treasury yields brought buyers back, particularly individual investors. Dramatic drops in relative and absolute tax free yields in 2009 bring us back to today's market.

Municipal yields should be considered on both an absolute basis and a relative basis. The previous graph shows the historic explosion these ratios experienced a year or so ago. Although ratios are near the lowest points in two years, technical and fundamental considerations could lead to even lower ratios. Taxable Build America Bonds ("BABs") will comprise much of the new issue volume in 2010 - an estimated twenty percent or higher - with most BAB issues concentrated in longer maturities. With more issuers taking the taxable route there will be fewer new tax free bonds than there would have been sans-BABs.

We expect demand to increase. President Obama's budget proposal would allow the 2001 and 2003 tax cuts for taxpayers earning above $250,000 per year (married filers) to sunset. The top brackets of 33% and 35% would return to 36% and 39.6% for 2011 and thereafter. A top bracket investor needs a 3.90% tax free yield to match a 6.00% taxable yield on an after tax basis. At 39.6% this same investor requires only 3.62% tax free to match the 6.00% taxable yield. Demand for tax free income will likely increase if tax rates increase. Based on moderate supply and potentially increased demand, the relative value (compared to taxable alternatives) of tax free municipal bonds should increase in coming months.

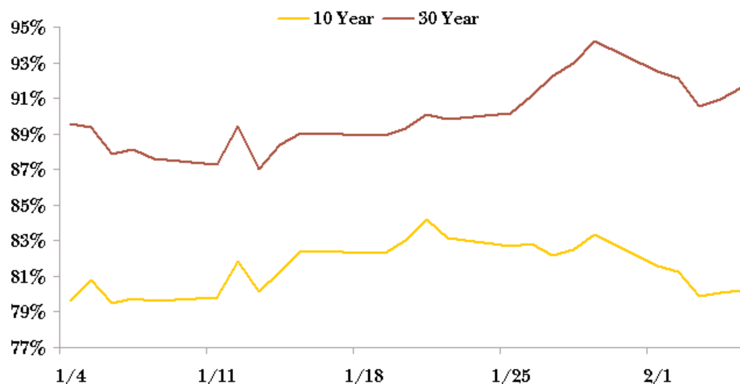
How about creditworthiness? As we note on page 5, in the Janney Municipal Market Sector Review, there are revenue sectors within the municipal market to which we have assigned a cautious approach, but generally municipal issuers have a long track record of timely payment and few defaults. Recently, Moody's released updated data on default rates of muni bonds they rate – 18,400 at year end 2009 compared to 1,100 in 1970. The average five year historical cumulative default rate for investment grade municipal debt was 0.03%, 1970 through 2009, compared to 0.97% for investment grade corporate issuers. Moody's noted that recovery rates are also stronger for municipal bonds, based on thirty day post default trading prices, $59.91 vs. $37.50 for senior corporate securities. It's worth noting that bondholders ultimately recovered 100% of their investment in the largest default, Orange County, CA. Generally the creditworthiness of municipal debt remains strong.

> Although ratios are near the lowest points in two years, technical and fundamental considerations could lead to even lower ratios.

Tax-Free Yields

The previous graph illustrates the volatility of M/T ratios going back over two years, but in recent months changes have been more moderate. Beginning the year at 79%, the ten year ratio rose as high as 84%, before settling back around 80%. The thirty year M/T ratio showed more fluctuation, hitting a high point of 94% and finishing above the levels of early January. Another way to view ratios is by factoring in taxation. If the top bracket taxpayer has a 39.6% marginal tax rate, break even ratios are around 60%, well below current and historical ratios. M/T Ratios are an important indicator of relative value, but not the only consideration. Other points investors must weigh include the investment's relative creditworthiness, structural features such as redemption provisions, liquidity comparisons and other factors.

Municipal to Treasury Ratios



Source: Bloomberg; Thomson Reuters MMD; Janney FI Strategy

AAA general obligation yields as represented by Municipal Market Data's ("MMD") scale experienced mixed changes for the month. As of February 1, yields in the front part of the yield curve fell slightly while yields in the medium to long term part of the curve rose a little, compared to January 4. A sizable amount of taxable volume, mostly BABs, may have decreased supply of tax-exempt municipal bonds, lowering ratios in the medium and longer part of the curve.

We use two separate data providers, MMA and MMD, for our analysis of municipal market yields. Yields and ratios noted may vary depending upon the data provider used.

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> Municipal new issuance of $32.7 billion set a record for January, overtaking $31.2 billion sold in January 2007.

AAA GO Yields

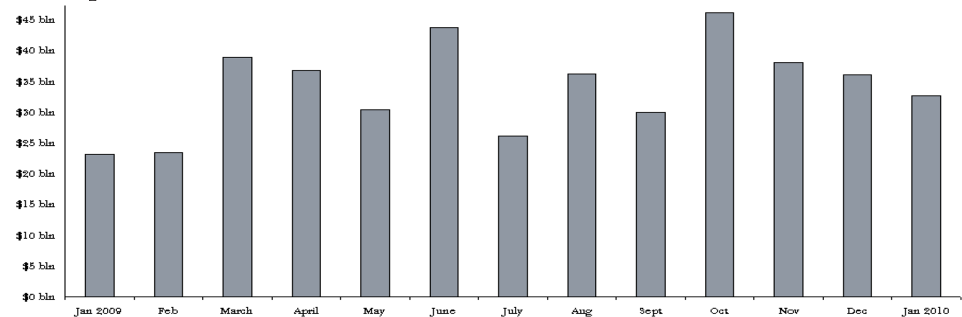
Date	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year	20 Year	25 Year	30 Year
2-Nov-2009	0.37%	1.05%	1.85%	2.48%	3.03%	3.47%	3.82%	4.15%	4.23%
1-Dec-2009	0.28%	0.83%	1.45%	2.09%	2.76%	3.29%	3.71%	4.10%	4.25%
4-Jan-2010	0.30%	0.91%	1.67%	2.43%	3.04%	3.42%	3.77%	4.10%	4.16%
1-Feb-2010	0.28%	0.87%	1.63%	2.36%	2.98%	3.45%	3.82%	4.11%	4.22%
Jan to Feb Change	-0.02%	-0.04%	-0.04%	-0.07%	-0.06%	0.03%	0.05%	0.01%	0.06%

Source: Thomson Reuters MMD.

New Issue Volume

Municipal new issuance of $32.7 billion set a record for January, overtaking $31.2 billion sold in January 2007. General purpose volume drove sector sales as it made up about 40% of all new issues last month. There was only $107 million of housing sector issuance reported for January, mainly because housing issuers rushed to sell bonds last year under the Treasury Department's $18 billion New Issue Bond Program, which expired on December 31, 2009. Refundings made up 19% of January issues, up 73% from January 2009, reflecting the effect of lower rates and more liquefied municipal markets. One might think refinancings would have been even more prevalent, with rates near all time lows, but refunding savings are limited because escrow investment rates are also near all-time lows. The use of insurance trended lower, with only $2 billion (6%) of new issues insured, primarily by Assured Guaranty or Assured Guaranty Municipal Corp. We still see value in municipal insurance and believe this decrease to be a result of the scarcity of affordable policies. Build America Bond ("BAB") issuance remained strong at $6.9 billion for the month, about the average monthly issuance since April 2009.

Municipal Bond Issuance



Source: Thomson Reuters; Janney FIS.

The largest issues of the month, mostly BABs, made-up a considerable percentage of January new issue volume, with the top three issues comprising almost 20% of all new issues sold. BABs made up 34% of the top five issues.

Largest January Municipal Bond Sales

Issuer	Tax-Status	Issue Type	Date of Sale	Par Amount ($)
Illinois	Taxable	GO	Jan 7	3,466
Puerto Rico Sales Tax Financing Corp.	Tax-exempt	Revenue	Jan 28	1,827
Illinois	Taxable (BABs)	GO	Jan 28	1,000
Pennsylvania	Taxable (BABs) & TE	GO	Jan 13	900
NJ Transpotation Trust Fund	Taxable (BABs) & TE	Revenue	Jan 7	859
			Total	8,052

Source: Thomson Reuters; Bloomberg; Janney FIS.

Build America Bonds

With only ten months of activity under its belt, the market for Build America Bonds, although hardly mature, has gained significant traction with about $70 billion sold since April 2009. The program, a creation of the stimulus package, subsidizes issuers' interest cost with a payment from the US Treasury to the issuer equal to 35% of the interest expense. The offset is that interest is subject to federal income taxes.

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The good news for municipal issuers is that, due to the higher "taxable" rates, a huge new class of investor is accessible – individual IRA and other tax free accounts, insurance companies, pension plans and even non US entities.

The first BAB issue in April 2009 was $250 million University of Virginia thirty year bonds, sold at a yield 250 basis points above the thirty year Treasury bond. Fast forward to a few weeks ago, January 13th, when University of Michigan sold $163 million with a 30 year maturity yielding only 95 basis points more than Treasuries. Both issuers are rated Aaa/AAA. As this example shows, demand is growing for these taxable municipal bonds leading to tighter spreads.

The BABs authorization is scheduled to end after December, but the administration has indicated an intention to extend and expand the program, although the subsidy amount may be reduced from the current 35% level. The proposed 28% subsidy rate is intended to make BABs' cost to the government more revenue neutral, with the subsidy amount paid by the Treasury roughly offset by the taxes received from investors. It remains to be seen if this will be accomplished, but it seems that BABs as a security class will be around for a while.

Although the BABs market has seen most of its demand from institutional buyers, these bonds should be considered by individual investors as another taxable asset class to compliment U S Treasury, agency and corporate securities. Credit attributes of municipal issuers differ significantly from those of corporate issuers, offering strong diversification opportunities. The Table offers a snapshot of eight mainstream January issues.

> Build America Bond spreads have tightend since April 2009. In January, University of Michigan priced at a 95 basis point spread to the 30 year Treasury.

Select January Build America Bond Sales

Issuer	Maturity	Rating	Yield (%)	Spread (bps)
Univ of Michigan	4/1/2040	Aaa/AAA	5.99	95
Met St Louis	5/1/2039	Aa2/AA+	5.86	115
NY Muni Wtr	6/15/2042	Aa3/AA+	5.95	140
San Diego	5/1/2049	Aa3/AA+	6.37	160
NJ Trans	12/15/2040	A1/AA-	6.56	175
Met Tran Auth NY	11/15/2039	A2/A	6.67	200
Illinois	2/1/2035	A2/A+	6.63	205
Franklin Co Conv OH	12/1/2042	Aa2/AA	6.64	210

Source: Bloomberg; Janney FIS

Optional Call Pricing Differential in NYC Municipal Water BAB

Traditional tax free municipal issues are usually subject to optional redemption prior to maturity. A ten year call provision on a thirty year municipal bond is not unusual. Generally, a callable bond carries a higher yield than a non callable bond of the same maturity since in a falling interest rate environment the holder could see the bond retired before maturity, with no opportunity to reinvest at the higher rate. On the other hand most corporate bond issues are non callable or are subject to a make whole call. A make whole call, which requires the issuer to pay a significant premium for early redemption, penalizes the issuer (and rewards the holder) so severely that this feature is rarely invoked.

As BABs issuers focused on broadening distribution beyond traditional municipal bond investors, most larger issues featured a make whole provision (making them essentially noncallable) to attract investors who might otherwise buy corporate bonds. Recently we've observed BABs issues marketed with traditional municipal ten year calls. A New York City Municipal Water Finance Authority BAB issue, priced in January illustrates the potential yield differential between the two approaches to early redemption. As the table shows, investors who accepted the ten year optional provision picked up an additional fifty basis points in a maturity only one year longer. A traditional municipal call allows an issuer to refinance when interest rates fall, but the cost of this financing flexibility, at least for this NYC Municipal Water issue, is almost 50 basis points.

New York City Water Finance Authority BAB Pricing Comparison (Jan 2010)

Maturity	Amount (mill)	Yield	Call Provision
June 2041	$100	6.452%	10 Year Optional
June 2042	$300	5.952%	Make-whole
	Difference	0.500%	

Source: Bloomberg; Janney FIS

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MUNICIPAL CREDIT

Municipal Sector Review

The Municipal Sector Review is a summary of Janney FIS's short term outlook for various municipal sectors. In this installment we also review five states and Puerto Rico all of which have been experiencing a high amount of credit deterioration since the recession began, and we will include reviews of other sectors in future publications.

Janney Municipal Sector Review

Sector	Janney Outlook	Key Sector Trends
State Government	Stable	Should see improvement as impact of economy recedes
Local Government	Cautious	Less support from states and declining revenue
School Districts	Stable	State intercept programs are generally strong
Airports	Cautious	Number of passenger and freight flights down YoY (See Feb 8 FI Weekly)
Higher Education	Cautious	Lower rated private schools face pressure (See Feb 1 FI Weekly)
Health Care	Cautious	Reimbursement pressures and uncertainty of federal healthcare legislation (See Jan 25 FI Weekly)
Housing	Stable	Single family is stronger than multi despite lower mortgage demand
Public Power (Elec.)	Stable	Essential purpose, but exposure to energy volatility mitigates
Tobacco	Cautious	Cigarette consumption declining faster than anticipated
Toll Facilities	Stable	Traffic down, but most still have positive debt service coverage
Water and Sewer	Stable	Essential purpose helps insulate from slow economy

Source: Janney FI Strategy

The Recession is Continuing to Damage States' Budgets

A January 2010 Nelson A. Rockefeller Institute of Government research piece found that inflation adjusted state tax collections were the lowest in almost 50 years for the first three quarters of 2009. Total state revenues dropped 13% compared to the same period in 2008. "2010 is going to be very difficult for the states and the next year is likely to be significantly worse," Rockefeller Deputy Director Robert Ward predicted.

> The deepest recession in 30 years is continuing to decrease state revenues resulting in mid-year budget deficits in almost every state, with many anticipating FY 2011 deficits.

The deepest recession in 30 years is continuing to decrease state revenues resulting in mid-year budget deficits in almost every U.S. state, with many anticipating large FY2011 deficits. States closed their budget gaps by tapping rainy day funds, executed spending cuts and used stimulus funds for FY2010. Just over half way into FY2010, budget gaps continue, as revenues fail to keep pace with projections. The Center on Budget and Policy Priorities (CBPP) is forecasting mid-year FY2010 budget gaps of almost $34 billion for 38 states and Washington DC. In response to states' requests for further assistance from the federal government, President Obama's February 1st budget proposal included $25 billion of emergency aid for states in the form of increased funding for Medicaid. We expect further requests for federal assistance as state revenues face continued pressure.

Selected States With Projected Mid-Year FY 2010 Budget Gaps

State	Size of Gap ($ in mill)	% of FY2010 General Fund
California	6,300	6.80%
Connecticut	549	3.10%
Florida	147	0.60%
Georgia	1,200	7.00%
Illinois	5,000	14.30%
Maryland	936	6.80%
Massachusetts	600	2.10%
New Hampshire	38	2.40%
New Jersey	400	1.40%
New York	3,200	5.70%
Ohio	296	1.10%
Pennsylvania	450	1.70%
Rhode Island	400	13.00%
South Carolina	439	7.60%
Vermont	28	2.50%
Virginia	1,800	11.10%
Other US States and Wash DC	12,117	-
Total	33,900	6.10%

Source: Center on Budget and Policy Priorities December 2009; Janney FI Strategy

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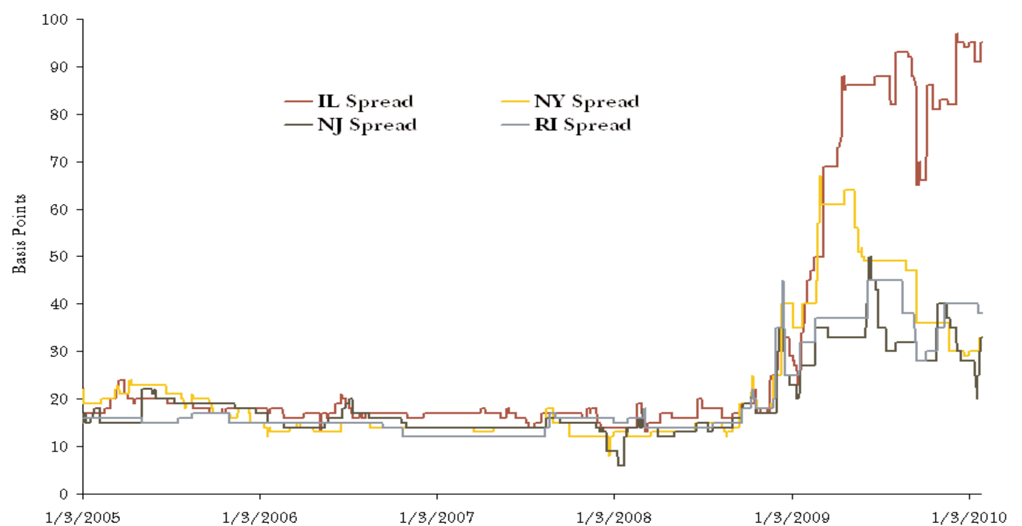
Six Issuers Experiencing Significant Fiscal Stress
Despite these difficulties, we believe the state sector is generally Stable. States have significant latitude to raise revenue and cut expenses, although public and political resistance can make this a challenging process. We focus below on five states (and Puerto Rico) which face significant economic headwinds, but we don't see default in the future for any states. The vast majority are rated in the AA and AAA range (see table in the Appendix on page 9) and for the most part we expect these strong credit profiles to survive the recession. High unemployment rates and reduced consumer consumption levels will continue to negatively impact tax revenue streams for most states, but most will address falling revenue with various forms of belt tightening and tax increases.

We focus on six issuers which are experiencing significant fiscal stress resulting in credit deterioration and widening credit spreads. All but New York have a negative outlook from at least one rating agency. The first tier of issuers we examine includes Illinois, New Jersey, New York and Rhode Island, with ratings in the mid A to low AA range and credit spreads currently ranging between 32 to 95 basis points. California and Puerto Rico, rated in the BBB range make up the second tier with spreads currently in the 145 to 210 span.

▪ **Illinois (A2/A+/A) –** Illinois' credit deteriorated through 2009 and we expect further pressure in 2010. The state's ratings remain on negative outlook after recent downgrades from all three rating services. Illinois' most recent budget gaps were funded with non-recurring measures and assorted spending cuts. It is expected the state will continue to battle revenue shortfalls, large and growing pension liabilities and a mounting debt burden. The spread of Illinois' 10 year maturity over the MMD benchmark is currently 95 basis points, well above its five year historical average of 30 basis points.

> The spread of the Illinois' 10 year maturity over the AAA MMD benchmark is currently 95 basis points, well above its five year historical average of 30 basis points.

Tier 1 - IL, NY, NJ and RI Spreads to MMD (10 Year)



Source: Thomson Reuters; Janney FI Strategy

▪ **New Jersey (Aa3/AA/AA-) –** The state's ratings were last affirmed by all three rating agencies at the beginning of December (Moody's assigned a negative outlook). We expect that the rating agencies will closely review the new administration's budget, expected to be unveiled during Governor Christie's March 2010 State of the State address. On the positive side, New Jersey's December 2009 income tax revenues were 10% higher than expected, resulting in monthly revenue 1.4% higher than forecasts, according to the N.J. Treasury Department. We expect New Jersey tax revenues to remain challenged in the near term and the state's fiscal outlook remains uncertain. The CBPP estimates New Jersey's FY2011 budget deficit at as much as $8 billion with other estimates even higher. The stress at the state level is flowing down to local issuers. In the fourth quarter of 2009 Moody's downgraded $592 million in general obligation debt of 14 New Jersey municipalities. Ten year spreads are in the 35 basis point range after topping out at 50 basis points in June 2009.

▪ **New York (Aa3/AA/AA-) –** New York's credit ratings have remained relatively stable, but budget issues magnified by the recessionary effects, are weighing heavily. The State's December 2009 unemployment rate rose to 9.0%, up from November's 8.6% and just under the 10.0% U.S. average.

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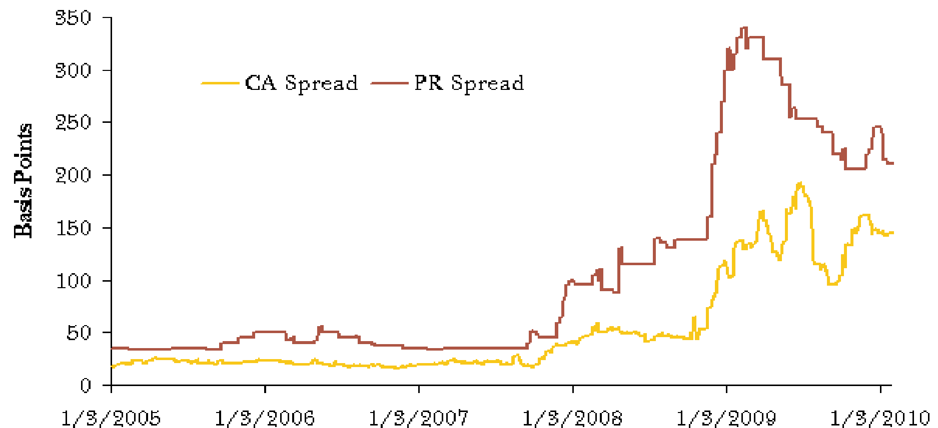
A recent New York State Comptroller's cash position report shows continued deterioration in the state's general fund and we expect similar fiscal stress going forward. Governor Paterson announced a projected deficit for FY2011 of $8.2 billion. The sharp improvements in the New York City centered financial sector may improve revenues in the form of both individual and corporate taxes, but we nevertheless expect headline risk and credit spread volatility to continue through 2010. Spreads were as high as 67 basis points in early 2009 and although they have tightened to 33 basis points recently, we expect they will widen again.

▪ **Rhode Island (Aa3/AA/AA-)** – All three rating agencies carry a negative outlook for Rhode Island bonds. The CBPP reports that Rhode Island has a $400 million mid-year budget gap, 13% of the state's general fund budget. The December 2009 unemployment rate in Rhode Island reached 12.9%, one of the highest in the U.S., just behind Michigan (14.6%) and Nevada (13.0%). At the beginning of February, Governor Carcieri released a proposed state budget that cut total state spending by 4%. The budget would drastically cut aid to local governments, withhold $135 million of auto tax payments to local governments, and levy a toll on the Sakonnet River Bridge. We expect further ratings deterioration in 2010. This fiscal uncertainty has caused the state's ten year credit spreads, currently 38 basis points, to rise above the 5 year average.

▪ **California (Baa1/A-/BBB)** – On January 13, Standard and Poor's lowered the State of California's rating to A- with a negative outlook, down from A. The downgrade was based on the state's extensive budget problems and anticipated cash shortfall. Moody's downgraded California to Baa1 from A2 and Fitch downgraded the state from A- to BBB back in July 2009. The state's fiscal imbalance and cash deficiencies are stressing the state's economic situation, with the budget assuming a significant amount of federal aid which may not materialize. The CBPP is forecasting a mid-year budget shortfall of $6.3 billion and we expect California to continue to experience credit deterioration and possible downgrades. Bonds traded at their widest spread, 190 basis points, in July 2009 after the Moody's and Fitch downgrades. Spreads subsequently narrowed and have been in the 145 to 150 basis point range recently.

> Although Puerto Rico recently beat budgeted revenue estimates, there are still far too many factors stressing the Commonwealth for investors to be at ease, much less optimistic.

Tier 2 - California and Puerto Rico Spreads to MMD (10 Year)



Source: Thomson Reuters; Janney FI Strategy

▪ **Puerto Rico (Baa3/BBB-/NR)**- Although a recent Puerto Rico Government Development bank report put net revenues from July 2009 to October 2009 just above budgeted estimates, there are still far too many factors stressing the Commonwealth for investors to be at ease, much less optimistic. These factors include: a local economy that has been in a recession since March 2006; a history of general fund operating deficits; continual deficit borrowing; and an unemployment rate above that of any U.S. state, 15%. Governor Fortuño, elected in 2008, introduced changes to help stabilize the government. For example, government employment reductions are in process and new taxes and temporary revenue enhancements are expected to boost revenues and ease general fund deficits. Overall, the Puerto Rico credit is weaker than that of any of the U.S. states, as illustrated by credit spreads. In March 2009 ten year spreads were 330 basis points, 140 basis points above California's widest spread, and have been recently been trading around 210 basis.

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Select Individual Credit Changes

- **California (Baa1/A-/BBB) –** On January 13, Standard and Poor's lowered the State of California's rating to A- with a negative outlook, down from A. The downgrade was based on the state's extensive budget problems and anticipated cash shortfall.

- **Hawaii (Aa2/AA/AA) –** Moody's ratings service dropped the outlook to negative from stable on $4.7 billion of State of Hawaii general obligation bonds on February 4. The state's economy has been hit hard by reduced travel and its effect on Hawaii's tourism industry has resulted in lower tax revenues.

- **Kansas (Aa1/AA+) –** Moody's dropped the outlook on $1.5 billion of State of Kansas bonds to negative from stable on February 8 because of revenue shortfalls and continued fiscal strains.

- **Minnesota (Aa1/AAA/AAA) –** The outlook on the State of Minnesota's bonds were lowered to negative from stable recently. This February 9 action affects approximately $4.2 billion of debt and is due to lower than anticipated revenue and depletion of reserves.

- **New York Metropolitan Transportation Authority (A3/A/A) –** Moody's downgraded the New York Metropolitan Transportation Authority's (MTA) Transportation Revenue Bonds to A3 from A2 during the week of February 1. The downgrade was a result of lower revenue levels received over a multi-month period and decreased government subsidies. Moody's assigned a stable outlook to NY MTA bonds.

- **Harrisburg, Pennsylvania (B2/NR) –** The capitol city was downgraded to B2 from Ba2 by Moody's on February 10 following Moody's October downgrade from investment grade. The city is weighing options including the sale of revenue producing assets, tax and fee increases, state assistance possibly in the form of Act 47 participation or municipal bankruptcy in a worst case scenario. See the Harrisburg, PA Update dated Feb 4, 2010 for more information.

> The capitol city of Harrisburg, PA was downgraded to B2 from Ba2 by Moody's on February 10 following Moody's October 2009 downgrade from investment grade.

- **Miami-Dade County, Florida (Aa3/AA-/AA-) –** Standard and Poor's lowered Miami-Dade County's general obligation bond outlook to negative from stable, based on expectations that the County's reserves will continue to trend downward. See the Miami-Dade County GO update dated Jan 21, 2010 and the research report dated Oct 15, 2009 for more information.

- **Another Municipal Insurer's AAA Rating is Lost –** Berkshire Hathaway Assurance Corporation's (Aa2/AA+) rating was downgraded to AA+ from AAA by S&P because its parent company, Berkshire Hathaway (Aa2/AA+), filed to sell an $8 billion issue designed to fund its purchase of railroad Burlington Northern (Baa1/BBB). The only AAA rated insurer(s) remaining in the municipal insurance industry are Assured Guaranty Corp. (Aa3/AAA/AA-) and Assured Guaranty Municipal Corp (Aa3/AAA/AA), formerly FSA.

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> *S&P cut California's rating and Moody's recently put the ratings of Hawaii, Kansas and Minnesota on negative outlook.*

APPENDIX - State and Other Select Issuer Ratings (February 11, 2010)

	MOODY'S		S&P		FITCH	
State	Rating	Outlook	Rating	Outlook	Rating	Outlook
Alabama	Aa2	Stable	AA	Stable	AA	Stable
Alaska	Aa2	Stable	AA+	Stable	NR	-
Arizona	A1	Negative	AA-	Negative	NR	-
Arkansas	Aa2	Stable	AA	Stable	NR	-
California	Baa1	Stable	A-	Negative	BBB	Stable
Colorado	NR	-	AA	Stable	NR	-
Connecticut	Aa3	Negative	AA	Stable	AA	Negative
Delaware	Aaa	Stable	AAA	Stable	AAA	Stable
Dist. of Columbia	A1	Stable	A+	Stable	A+	Stable
Florida	Aa1	Negative	AAA	Negative	AA+	Negative
Georgia	Aaa	Stable	AAA	Stable	AAA	Stable
Hawaii	Aa2	Negative	AA	Stable	AA	Negative
Idaho	Aa2	Stable	AA	Stable	AA-(1)	Stable
Illinois	A2	Negative	A+	Negative	A	Watch Negative
Indiana	Aa1	Stable	AAA	Stable	AA(1)	Stable
Iowa	Aa1	Stable	AAA	Stable	AA+	Stable
Kansas	Aa1	Negative	AA+	Stable	-	-
Kentucky	Aa2	Negative	AA-	Stable	AA-(1)	Negative
Louisiana	A1	Positive	AA-	Stable	AA-	Stable
Maine	Aa3	Stable	AA	Stable	AA	Stable
Maryland	Aaa	Stable	AAA	Stable	AAA	Stable
Massachusetts	Aa2	Stable	AA	Stable	AA	Stable
Michigan	Aa3	Negative	AA-	Stable	A+	Stable
Minnesota	Aa1	Negative	AAA	Stable	AAA	Negative
Mississippi	Aa3	Stable	AA	Stable	AA	Stable
Missouri	Aaa	Stable	AAA	Stable	AAA	Stable
Montana	Aa2	Stable	AA	Stable	AA	Stable
Nebraska	Aa3(1)	Stable	AA+	Stable	NR	-
Nevada	Aa2	Stable	AA+	Stable	AA	Stable
New Hampshire	Aa2	Stable	AA	Stable	AA	Stable
New Jersey	Aa3	Negative	AA	Stable	AA-	Stable
New Mexico	Aa1	Stable	AA+	Stable	NR	-
New York	Aa3	Stable	AA	Stable	AA-	Stable
North Carolina	Aaa	Stable	AAA	Stable	AAA	Stable
North Dakota	Aa2	Stable	AA+	Stable	NR	-
Ohio	Aa2	Negative	AA+	Negative	AA	Stable
Oklahoma	Aa3	Stable	AA+	Stable	AA	Stable
Oregon	Aa2	Stable	AA	Stable	AA	Stable
Pennsylvania	Aa2	Negative	AA	Stable	AA	Stable
Puerto Rico	Baa3	Stable	BBB-	Stable	NR	-
Rhode Island	Aa3	Negative	AA	Negative	AA-	Negative
South Carolina	Aaa	Stable	AA+	Stable	AAA	Stable
South Dakota	A1(1)	Stable	AA	Stable	AA-(1)	Stable
Tennessee	Aa1	Stable	AA+	Stable	AA+	Stable
Texas	Aa1	Stable	AA+	Stable	AA+	Stable
Utah	Aaa	Stable	AAA	Stable	AAA	Stable
Vermont	Aaa	Stable	AA+	Stable	AA+	Stable
Virginia	Aaa	Stable	AAA	Stable	AAA	Stable
Washington	Aa1	Negative	AA+	Stable	AA	Stable
West Virginia	Aa3	Positive	AA	Stable	AA-	Positive
Wisconsin	Aa3	Negative	AA	Stable	AA-	Stable
Wyoming	NR	-	AA+	Stable	NR	-

Source: Moody's; S&P; Fitch; Janney FI Strategy. (1) Lease Rating.

Janney
CAPITAL MARKETS

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We, Alan Schankel & Tom Kozlik, 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 economies, indicators, sectors, industries, issuers, and securities. No part of my 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.

Stable: Janney FIS believes there are factors which point towards stable issuer or sector credit quality.

Cautious: Janney FIS believes there are factors which introduce the potential for declines in issuer or sector credit quality.

Negative: Janney FIS believes there are factors which point towards weakening in issuer or sector credit quality.

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 the "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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