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September Muni Volume Indicates Recovery

In September, total issuance for the month totaled \$21.86 billion, a 2.3% increase from September 2013. Refundings in September contributed to this uptick, at \$8.63 billion, 28.6% higher than levels in September 2013. New money, however, was down 16.6% from the same month the year before.

Supply is typically higher close to the end of the year, so it is predicted that this uptick in municipal volume will continue.

The Municipal Market Data ("MMD") 'AAA' Muni Market 10 year yield ended September at 2.17%, a 10 basis point increase from the end of August; the 30 year yield rose a slight 6 bps, from 3.03% at the end of August to 3.09% to end September.

The 10-year US Treasury yield ended September at 2.52%, up 17 bps from 2.35% at the end of August. The 30-year Treasury

yield also increased, rising from 3.09% at the end of August, to 3.21% to end September.

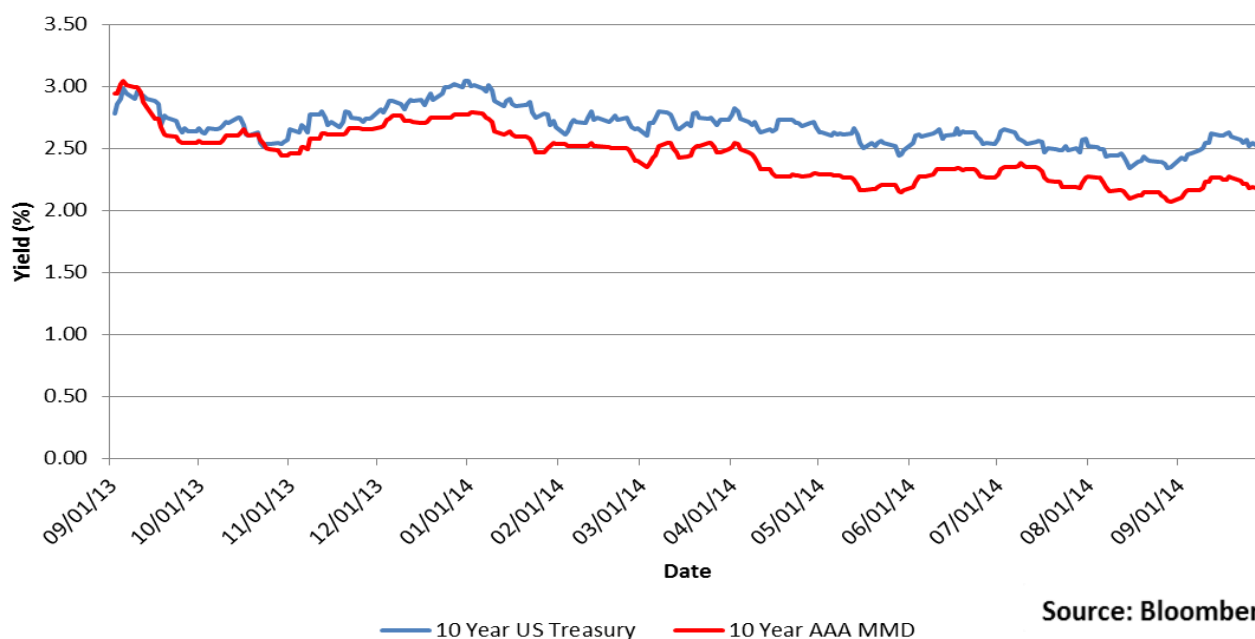
As of September 30th, the ratios of 'AAA' General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.13 / 0.13	100.00%
5-Year	1.17 / 1.78	65.73%
10-Year	2.17 / 2.52	86.11%
30-Year	3.09 / 3.21	96.26%

Sources: The Bond Buyer, Bloomberg, US Department of Treasury, US Federal Reserve

Variable Rate Market Update

Figure 1 - 10 Year AAA MMD and 10 Year US Treasury





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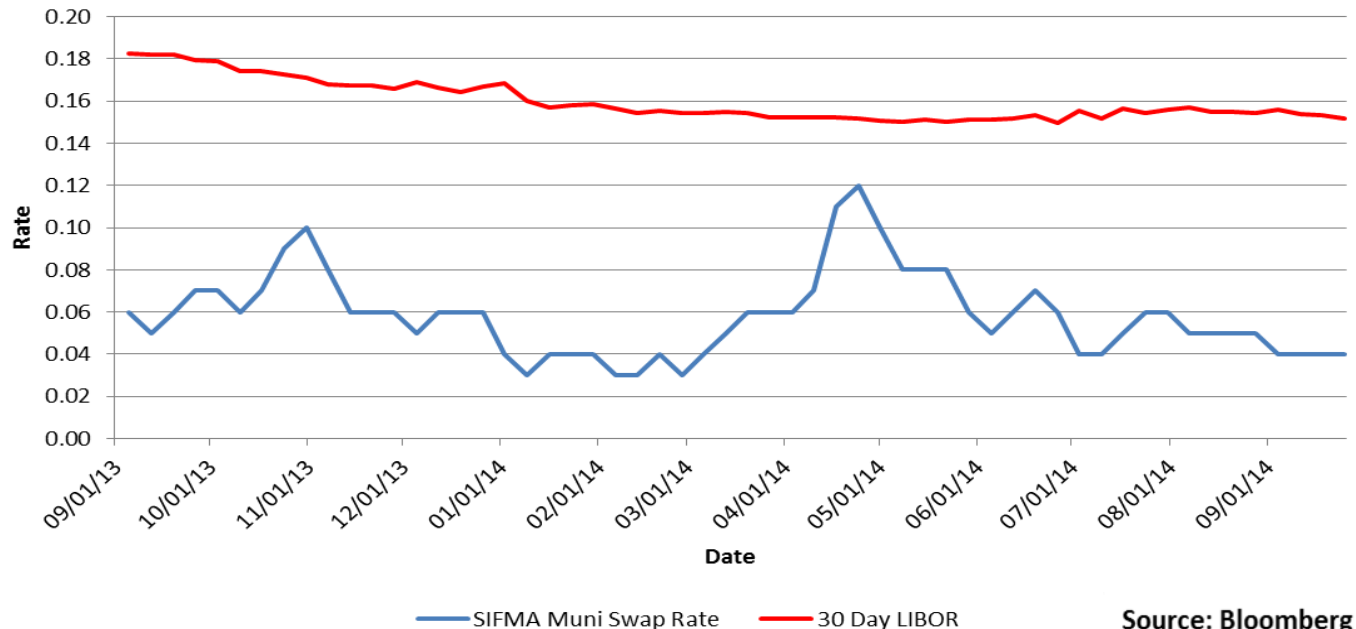
The SIFMA Municipal Swap Index, an average of high-grade, tax-exempt, variable rate bonds, ended September at .04%, 1 basis point less than the .05% seen at the end of August. The 30-day LIBOR also decreased in the month of September, beginning the month at .1545% and ending at .1515%. Please refer to Figure 2 below for historical SIFMA and LIBOR rates.

Sources: The Bond Buyer, Bloomberg, SIFMA

The 3rd Quarter of 2014 has offered more of the same trends that were seen in the first two quarters; low interest rates, narrow credit spreads, and light volumes. As should be expected, low yields continued to dampen the enthusiasm for buying municipal bonds, however, the continuing reluctance of new borrowers to take advantage of low borrowing costs continues to surprise. The top three trends for the quarter, in our estimation, were:

Interest rates on new municipal bonds, which started the quarter as still very low by historical standards, managed to trend even further down as the quarter went on. The 20 year AAA MMD was yielding 3.06 on July 1st and had dropped to 2.83 by September 30th, a decline of 23 basis points. Even more dramatic was the decline since the beginning of the year when the same yield started 2014 at 3.89, a full percentage point and change above current rates. The results for the 30 year General Obligation AAA MMD

Figure 2 - SIFMA & LIBOR Rates



Source: Bloomberg

Third Quarter 2014 Review

#1 Low Rates, But Low Issuance

yields were similar. Despite the



availability of cheap money, issuers remained reluctant to borrow. Whether because of budget concerns, lack of voter appetite for new capital projects or, perhaps displaying more foresight than most believe possible, a tacit acknowledgement that future pension costs are going to be a tough nut to crack, potential issuers have stayed away in droves. 3rd Quarter muni bond issuance totaled \$72.5 billion, nearly \$2 billion less than the also frugal 2013 third quarter and much below historical norms.

#2 Spreads Tightened

The lack of supply of new municipal bonds, in conjunction with a general lack of supply of yield producing investments in general, caused credit spreads to tighten in the 3rd Quarter. Credit spreads, the raw difference between the yield of a bond of

any particular credit rating and the yield of a AAA rated bond of the same maturity, tell investors a lot about the bond market. It is generally indicative of the tightness of supply as investors who have money to put to work, but have fewer options, become less selective about the credit quality of the bonds they purchase. 20 year A rated muni bonds began the quarter trading 68 bps above 20 year AAA bonds and ended it 56 bps above it. BAA MMD yields became even tighter, going from +116 to +103.

#3 Secondary Slowdown

The secondary municipal market, the market to buy and sell already outstanding bonds, continued a yearlong trend of slowing to levels last seen a decade ago. Although September data is not yet available, both July and August average daily trading

volume was significantly lower than the previous year. July volume was down 4.6% and August volume was down over 24%. In fact, August's daily secondary volume of \$9.1 billion was less than the annual daily average for every year since 2002, according to data supplied by SIFMA. In comparison to the overall size of the municipal bond market, \$3.6 trillion as of June 2014, the \$9.1 billion of average daily secondary volume represents .25% of the market. That was the lowest proportion since 1998 when the municipal bond market was only \$1.4 trillion in size, or about 39% as large as it is now.

Sources: Thomson Reuters, Federal Reserve Bank of St. Louis, and the Securities Industry and Financial Markets Association



September 2014 Selected Bond Issues

General Obligation

<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>
9/1/2014	\$9.41	Coralville, Iowa	General Obligation Urban Renewal Bonds	/BBB+/-	6/1/2032	4.580%	189	
9/8/2014	\$11.75	Madison County, Mississippi	General Obligation Refunding Bonds	Aa2/ /	5/1/2027	3.000%	57	
9/15/2014	\$12.30	County of Logan, Ohio	General Obligation County Home Refunding Bonds	/AA-/-	12/1/2039	3.986%	87	
9/15/2020	\$8.56	City of Union City, Georgia	General Obligation Refunding Bonds	A1/ /	4/1/2026	2.820%	137	Bank Qualified

Education Sector

<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>
9/22/2014	\$73.37	Massachusetts Development Finance Agency	Revenue Bonds Boston University Series Z-1, Z-2	A1/A/	8/1/2019	1.500%	32	
9/15/2014	\$21.49	Health and Educational Facilities Authority of Missouri	Missouri State University	/A+/-	10/1/2039	3.700%	58	

Source: Bloomberg



Municipal Market UPDATE

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Water & Sewer / Utility								
<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>
9/1/2014	20.06	Rowland Water District	Water Revenue Refunding Bonds	/AA-/	12/1/2039	3.550%	55	
9/8/2014	\$58.52	City of Colorado Springs, Colorado	Utilities System Improvement Revenue Bonds	/AA/AA	11/15/2044	3.370%	31	
9/15/2014	\$5.95	City of Victoria, Texas	Certificates of Obligation	/AA/	8/15/2034	3.590%	100	
9/8/2014	\$23.79	Contra Costa, California Water District	Water Revenue Refunding Notes	/AA/AA-	10/1/2019	1.150%	3	
9/15/2014	\$16.61	Sanger Financing Authority (Fresno, California)	Wastewater Refunding Revenue Bonds	/AA/	6/15/2034	3.549%	61	Insurance - AGM
Healthcare Sector								
<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>
8/25/2014	\$20.94	Hunt Memorial Hospital District	General Obligation Refunding and Improvement Bonds	A1/AA-/	2/15/2034	3.880%	105	
9/15/2014	\$24.30	Nolan County Hospital District	Limited General Obligation Combination Tax and Revenue Bonds	A3/ /	8/15/2037	4.110%	104	

Source: Bloomberg

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