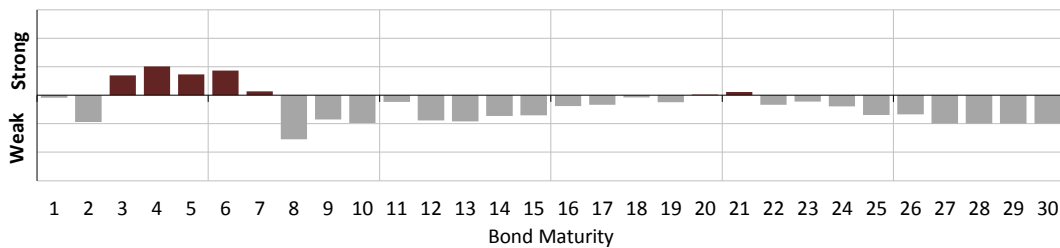
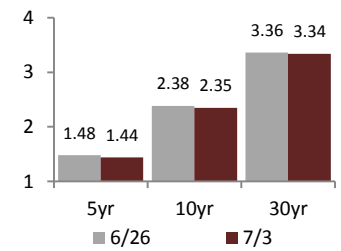


MUNICIPAL ISSUER BRIEF

Strong or Weak Market for Bond Sellers



Muni Bond Rates (%)



Heading into this week, municipal outperformance of the large swings in Treasuries has put the tax-exempt curve in a weaker context with the exception of shorter maturities inside the 8-year space.

MARKET UPDATE

IT'S ALL ABOUT GREECE: Speculation on whether Greece stays in the European Union continues to dominate interest rate movement and that affects state and local borrowing costs—largely because it injects greater rate volatility.

INVESTORS & ISSUERS: A 2nd consecutive week of light volume:

- Yield direction in secondary markets during most of last week was dependent on the latest news out of Greece, which led to increased speculation that the country would leave the EU.
- **Large swings in U.S. Treasury rates resulted, which moved municipal rates in differing directions at certain points.**
- Today, the news is that Greece will not increase taxes in a latest vote and Treasuries rallied overnight—**setting up the week well for another light week of municipal new-issues.**
- The credit spectrum is wide for the scheduled deals this week: a North Carolina utility, Florida certificates of participation and Illinois Tollway bonds lead the slate. **The market will be lacking a large high-grade transaction for benchmark providers.**
- For municipals, this is the 2nd month of above-average reinvestment, and unlike June, historically July has favored positive performance—a **good sign** for those coming to market soon.
- Retail and fund response to Puerto Rico will be on the radar for most market participants. Thus far **losses in PR have not translated to the general market** (see **Figure 1**, right for more).
- Also on the positive front, **California GOs improved** after being upgraded by S&P, while generic **Texas markets also gained in price** after last week's successful Texas Transportation deal.
- Mutual funds that invest in municipals reported losses of \$1.2B, **the largest week of cash lost since January of 2014**—for now this has not negatively impacted the market but that could change if outflows persist throughout the summer.

BUYERS BITES:

WHAT IS TRENDING HOT:

- 1) New York City issuers
- 2) California GO
- 3) Texas Transportation Commission

CURRENTLY HARDER SELLS:

- 1) Puerto Rico
- 2) tobacco-backed securities

WHO IS REPORTEDLY BUYING:

Large banks, insurance companies

Puerto Rico GO Prices Since Start of 2015

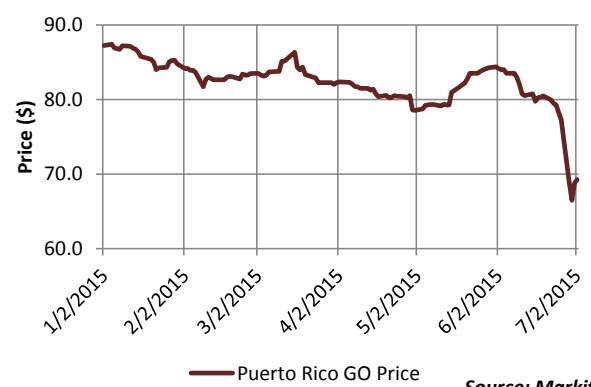


Figure 1: Puerto Rico GOs and other credits across the territory's capital structure saw the largest price declines in the island's history of municipal debt last week. Above, **Markit** tracks the frequently traded general obligation bond that, by the middle of last week, traded at its lowest level since issuance in 2014. **All issuers should monitor how the general municipal market handles these large losses, as in many cases typical municipal bond investors have exposure to Puerto Rico via a mutual fund or have yet to sell their individual holdings.** If a fund or a large number of investors sell their PR holdings at distressed levels it could impact all municipal bond issuers negatively.

SUPREME COURT: As the latest Supreme Court session ended, so did the chances of former Miami budget director Michael Boudreaux's overcoming an SEC lawsuit related to a 2009 bond deal. The lower courts sided with the SEC, that Mr. Boudreaux is personally liable for the alleged fraudulent behavior related to information presented in bond offering documents. **By allowing the lower courts' decision to stand, there is heightened concern among the public sector community that finance officials could be personally liable for actions that occur as part of their job,** and cannot rely on the legal theory of qualified immunity that has traditionally protected government officials.