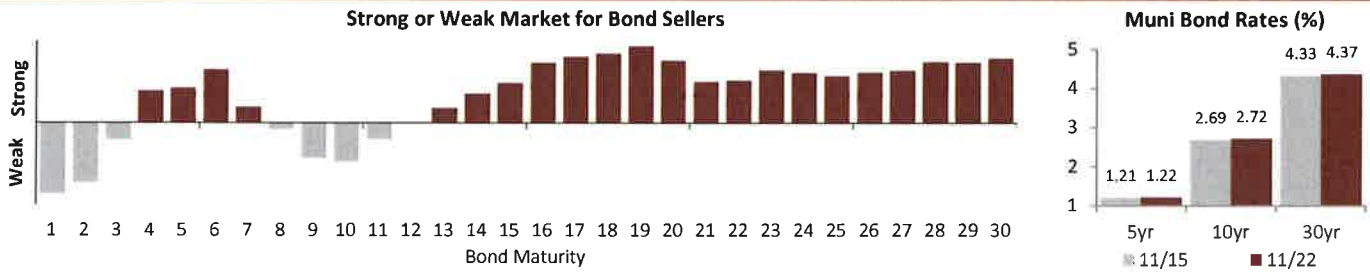


MUNICIPAL ISSUER BRIEF



Following the trend of the last month, the current week's market dynamic generally favors issuers selling bonds maturing 12-years and longer. It may be more difficult to achieve such aggressive levels on shorter maturities. Still, SMA activity in the 4- to 7-year range has kept that area strong.

MARKET UPDATE

MUNICIPALS FOLLOW OTHER MARKETS TO CHEAPER YIELDS: On Wednesday last week most bonds moved to much higher yields and municipals were forced to follow. This did hurt some issuers in the process but the shortened week may give time to mend.

INVESTORS & ISSUERS: This week is expected to be very slow.

- In the middle of last week the markets digested new information from the Federal Reserve that caused a sell-off. The Central Bank hinted that they may end its Treasury bond buying program sooner than expected. As a result, Treasuries lost significant value and took municipals with them. Luckily, most new issues were priced into the market by then but some of the later-scheduled deals suffered somewhat.
- The holiday-shortened week leaves only a few deals scheduled to come to market (see Figure 1). Historically this is a slow and non-volatile week for borrowing rates.
- Last week's competitive deals found strong demand as a few large banks are buying municipal bonds in this manner. This is especially true for larger, high-grade, longer-dated frequent issuers. This presents an opportunity for similar issuers.
- Municipal bond investors pulled cash out of mutual funds for the 26th straight week. This is now equal to the largest string of cash losses in the last decade for municipal funds. One silver lining was that funds that invest in shorter-maturing municipal bonds actually saw some investors increase cash investments meaning that municipalities that issue inside of 10-years could benefit.

NEGOTIATED VS. COMPETITIVE UNDERWRITING

- The Missouri State Auditor's office released a [report](#) on the sale of general obligation bonds. The office found that negotiated sales "incur unnecessary borrowing costs." The debate of competitive versus negotiated underwriting is as old as the market. We will further delve into this topic in future editions as MMA sees both pros and cons to each type of underwriting depending on the type of issuer and size of your bond deal.

BUYER BITES:

WHAT IS TRENDING HOT:

- 1) Short maturities, especially in 4- to 7-year range
- 2) High-grade competitive deals

CURRENTLY HARDER SELLS:

- 1) Mutual funds
- 2) Subordinate-lien Jefferson County sewer warrants
- 3) Triple-B or lower health/housing

WHO IS REPORTEDLY BUYING:

Separately managed accounts, insurance companies, large banks

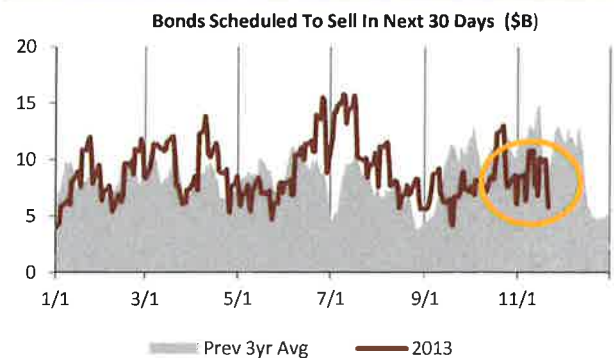


Figure 1: A commonly used metric to gauge how many municipal deals are in the works is the Bond Buyer 30-day Visible Supply—the red line in the chart above. Note that recently the red line has fallen below the 3-year average (grey background). This means the supply/demand dynamic favors issuers.