

MUNICIPAL MARKET OUTLOOK: 2014

Municipal Market Advisors, Inc.

December 12, 2013

Thomas G. Doe, Founder and CEO



MMA The Power
of Independence

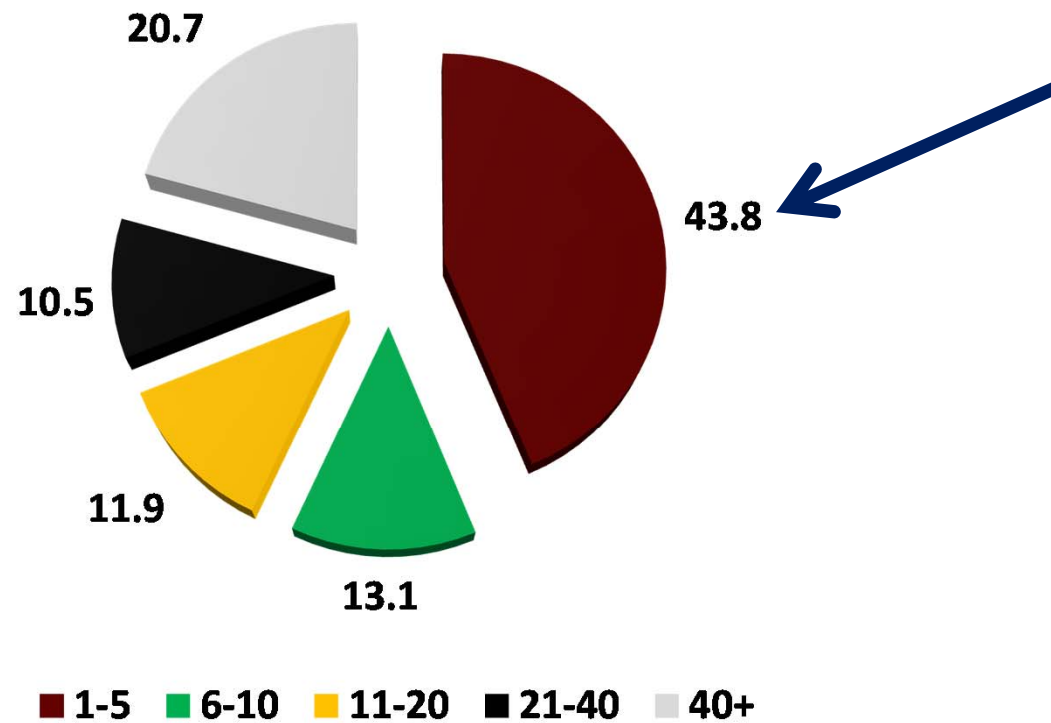
www.mma-research.com

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Concord, MA 01742
978-287-0014

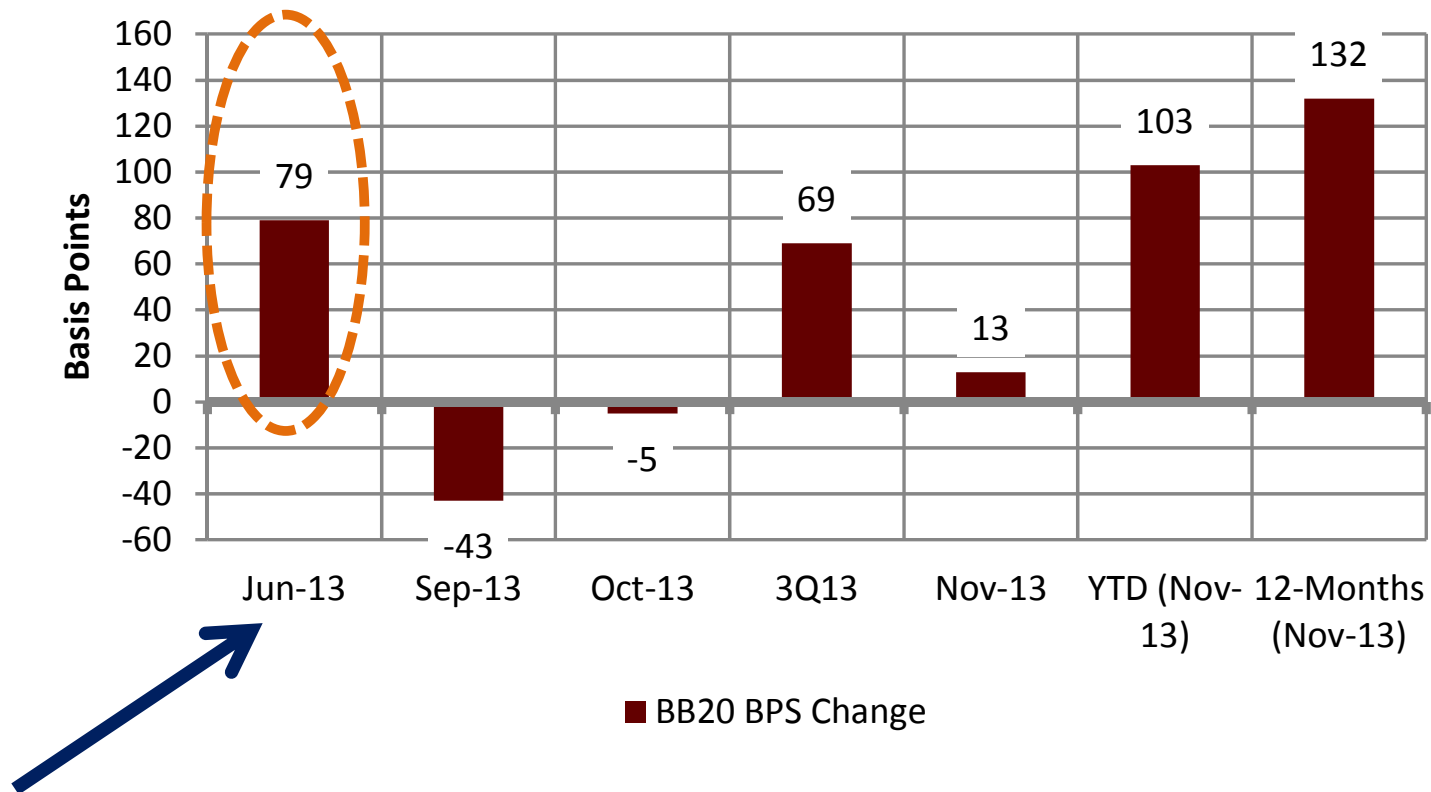
- **Weakened Demand Component** – Mutual fund outflows and peaking bank demand. Puerto Rico undermined investor confidence. Attention on the tax-exemption, and challenges of raising capital in adverse market conditions. The exemption is the sole driver.
- **Municipal Advisor Rule** – New context for information exchange, and dynamic for business metrics – how are issuers served and how is capital valued. Forcing a behavioral change.
- **Marijuana Legalization** – Palliative therapies/Boomer demographic and medical tourism. CO and WA providing real-time results (*Regulation, Enforcement & Economics*). Uruguay, first country to fully legalize – “Cultivating Freedom, Uruguay Grows.”

THE FLEA MARKET

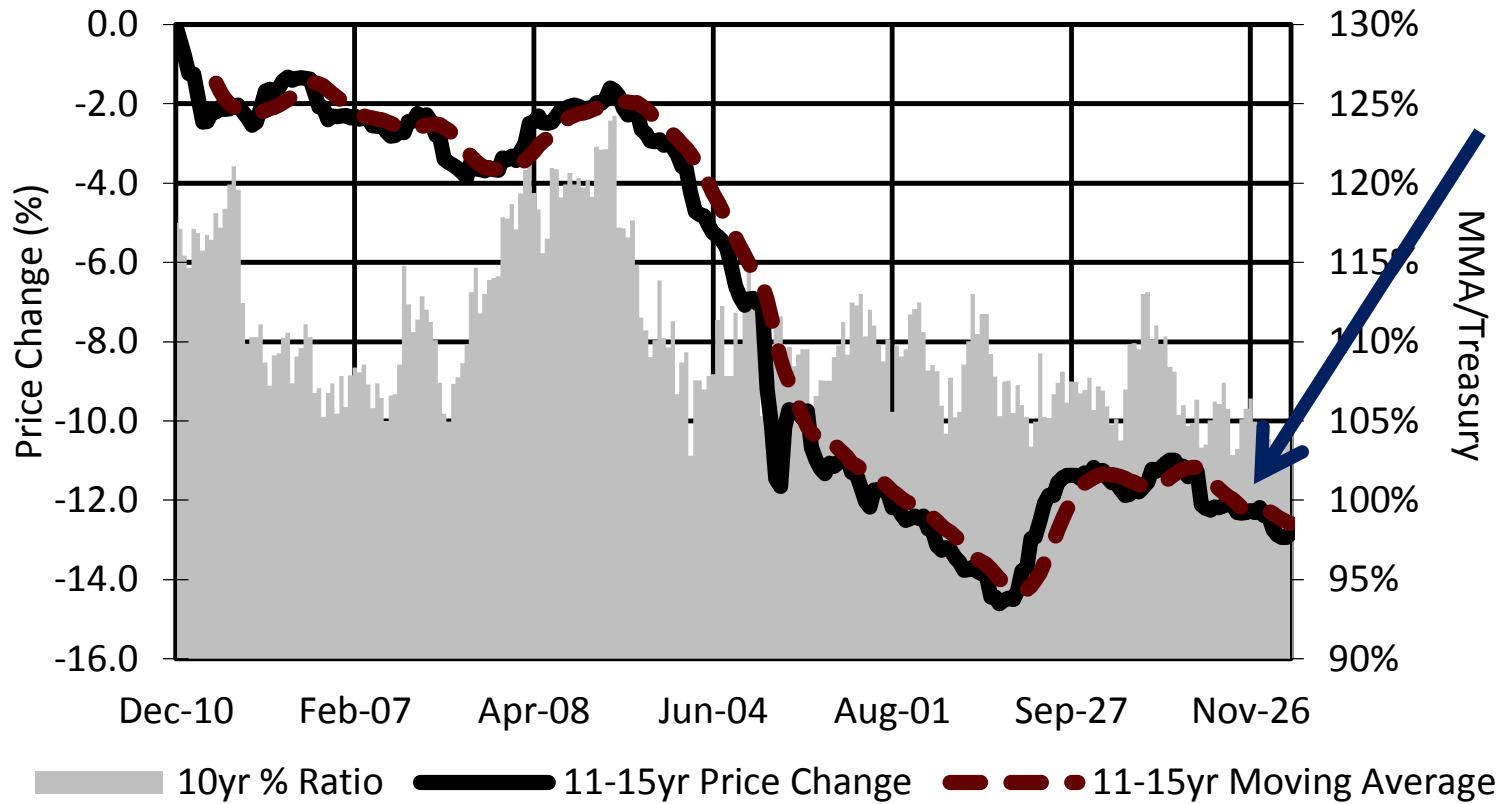
Percent Distribution of Customer Trades: 2012 By number of dealers based on number of trades



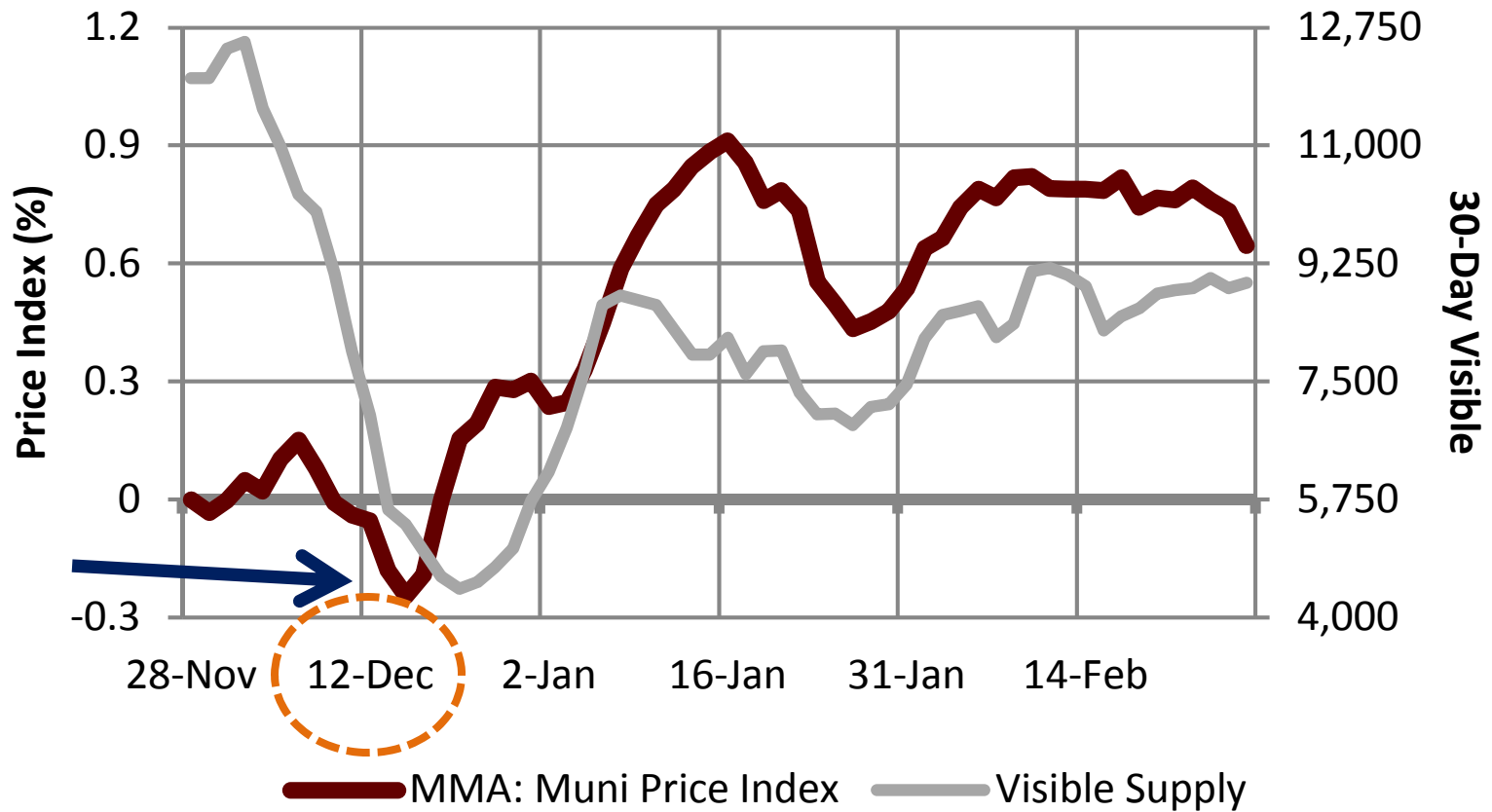
Bond Buyer 20 GO Basis Point Change: Various Time Periods - June Was Devastating



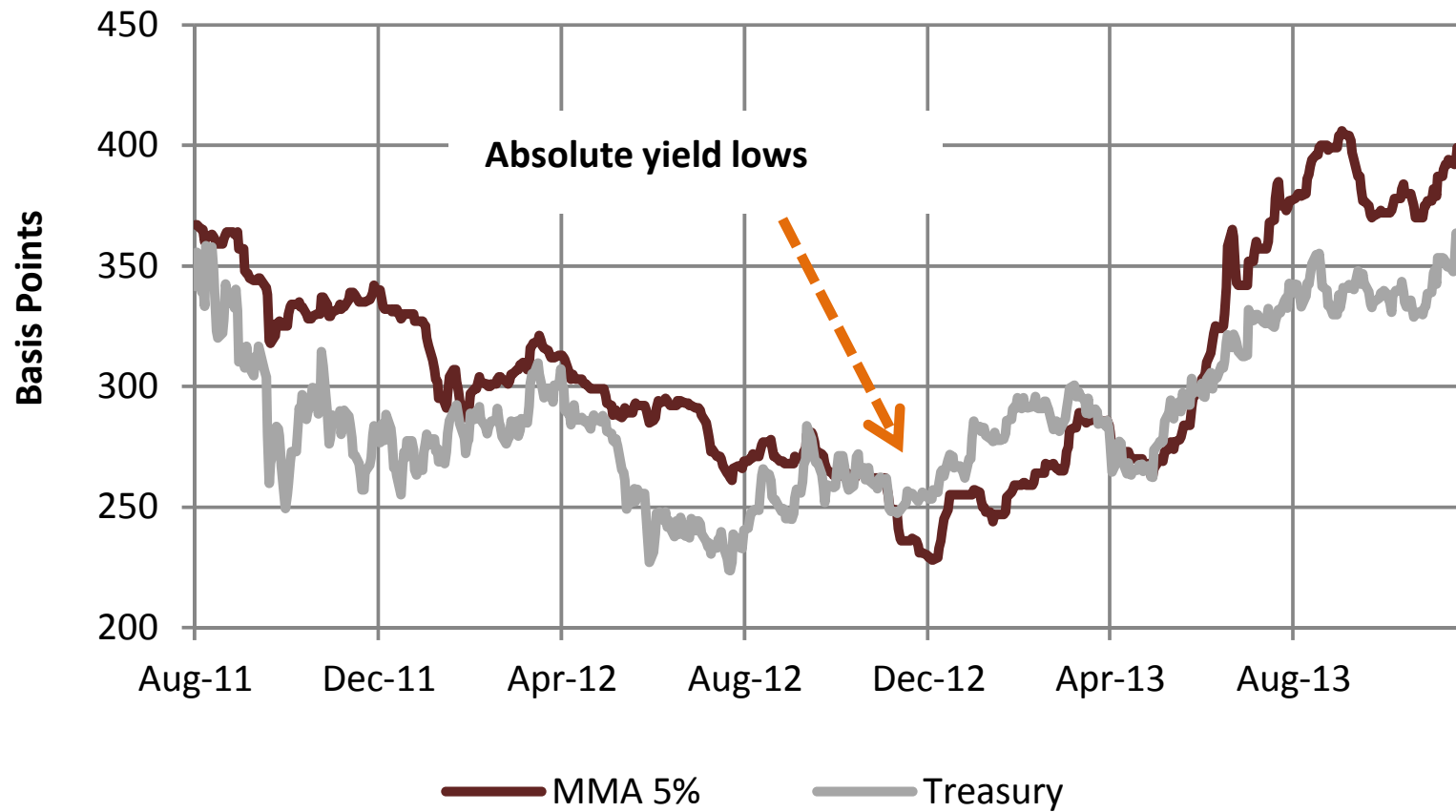
**MMA AAA Median Municipal Benchmark
11-15yr Price Change vs. % to Treasury - 1 Year History**



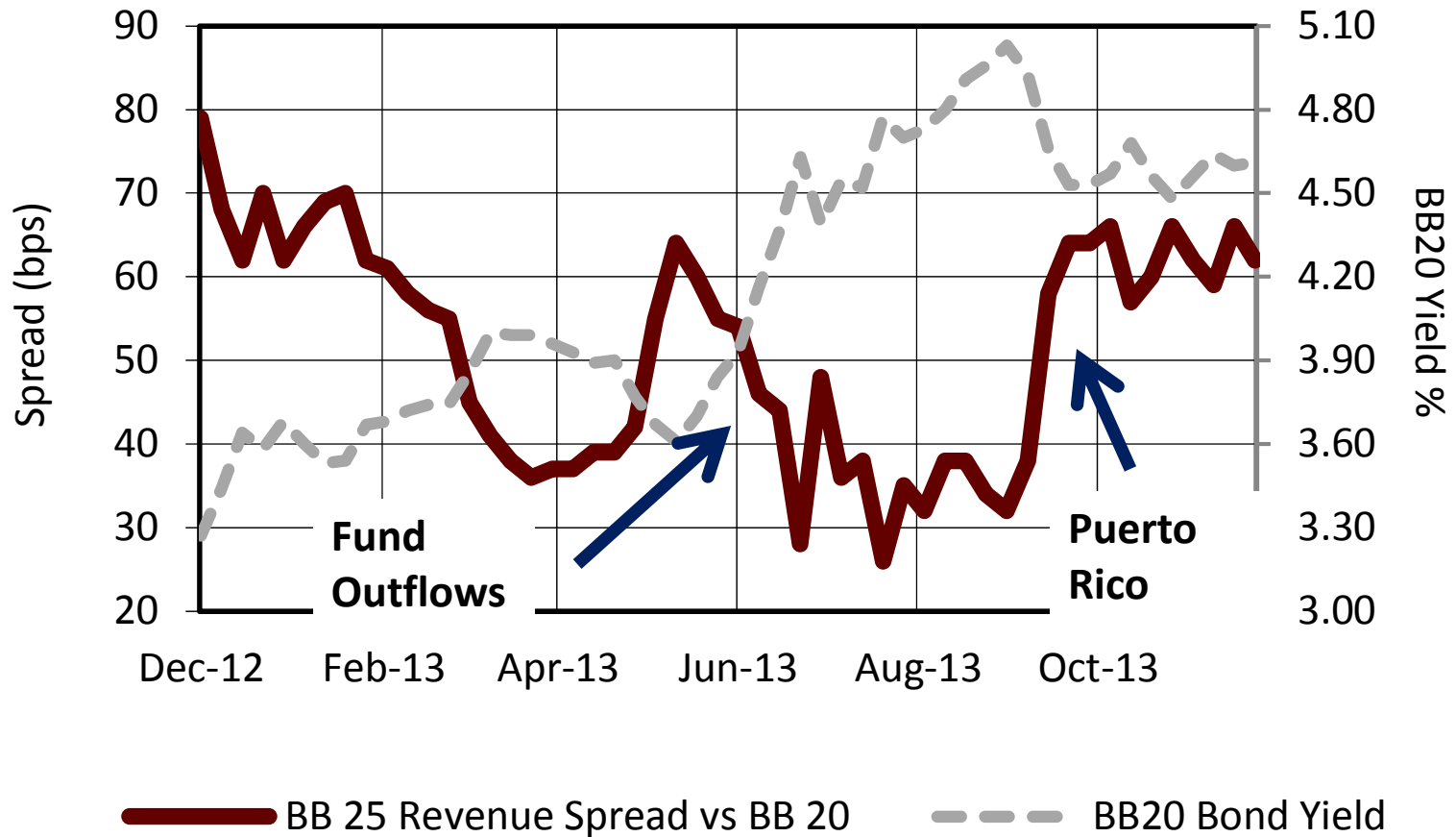
MMA Price Index vs. Visible Supply Seasonal 2000-2012



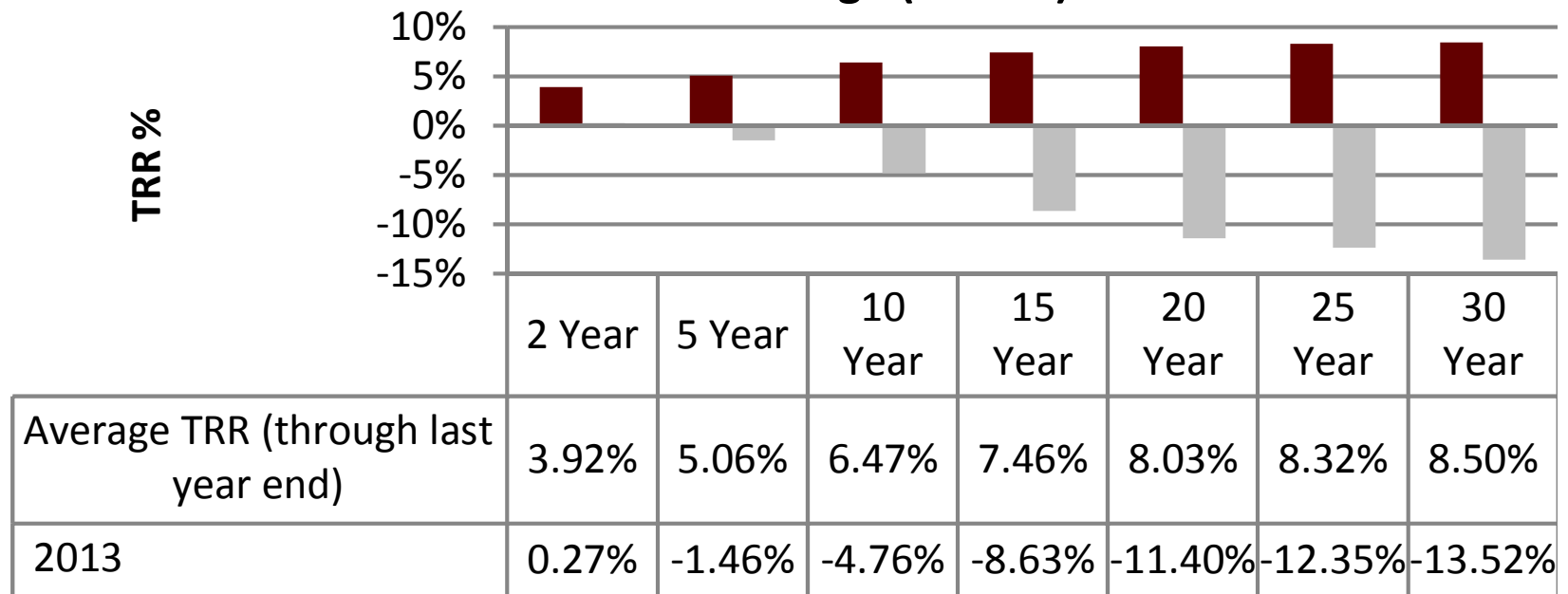
Fixed-Income Curve Slopes: 2 to 30 Term Spread



Bond Buyer 25 Revenue vs. Bond Buyer 20 G.O. Index

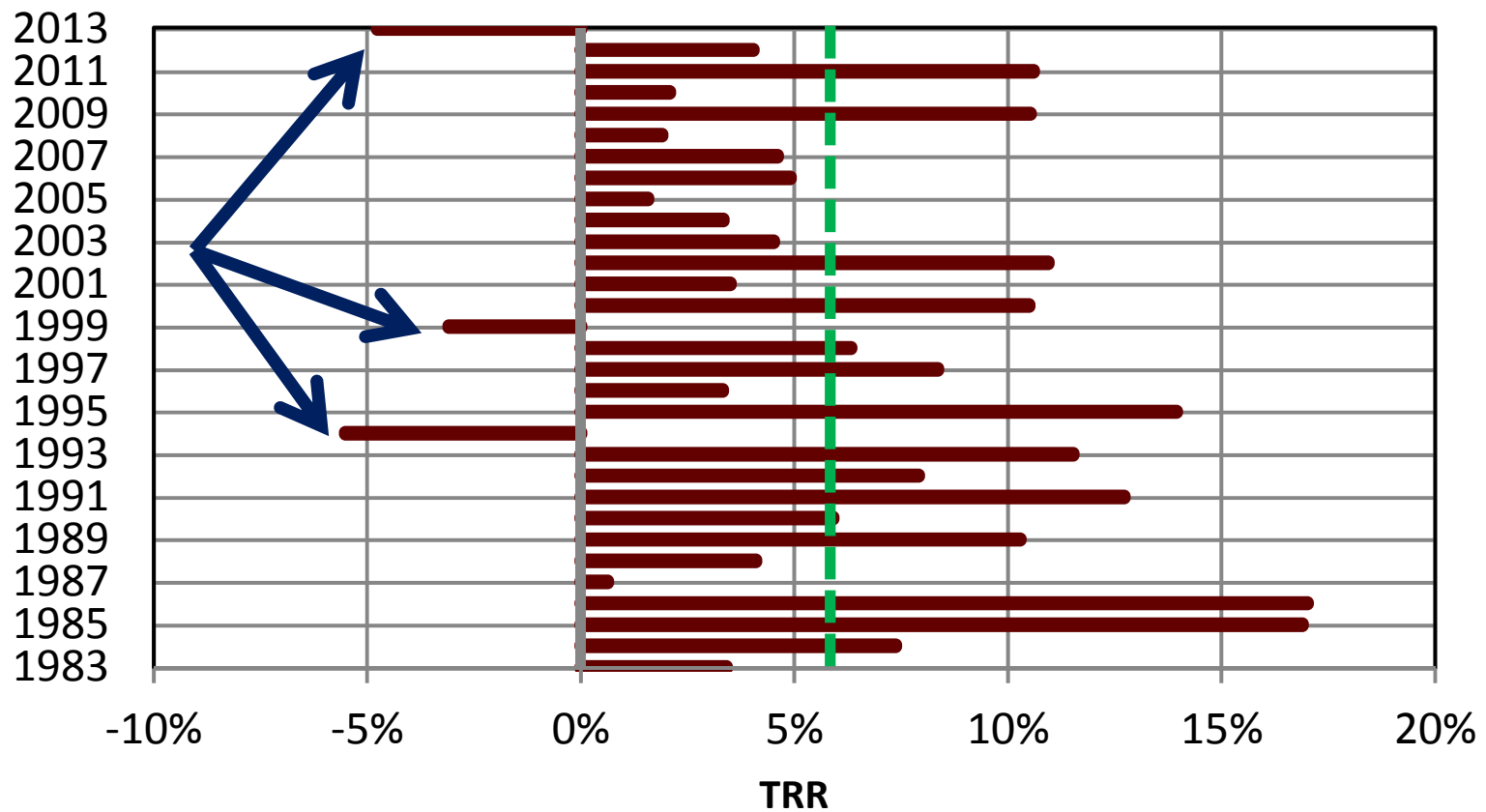


**MMA Total Rate of Return (TRR)
2013 v. Average ('83-'12) - as of November '13**

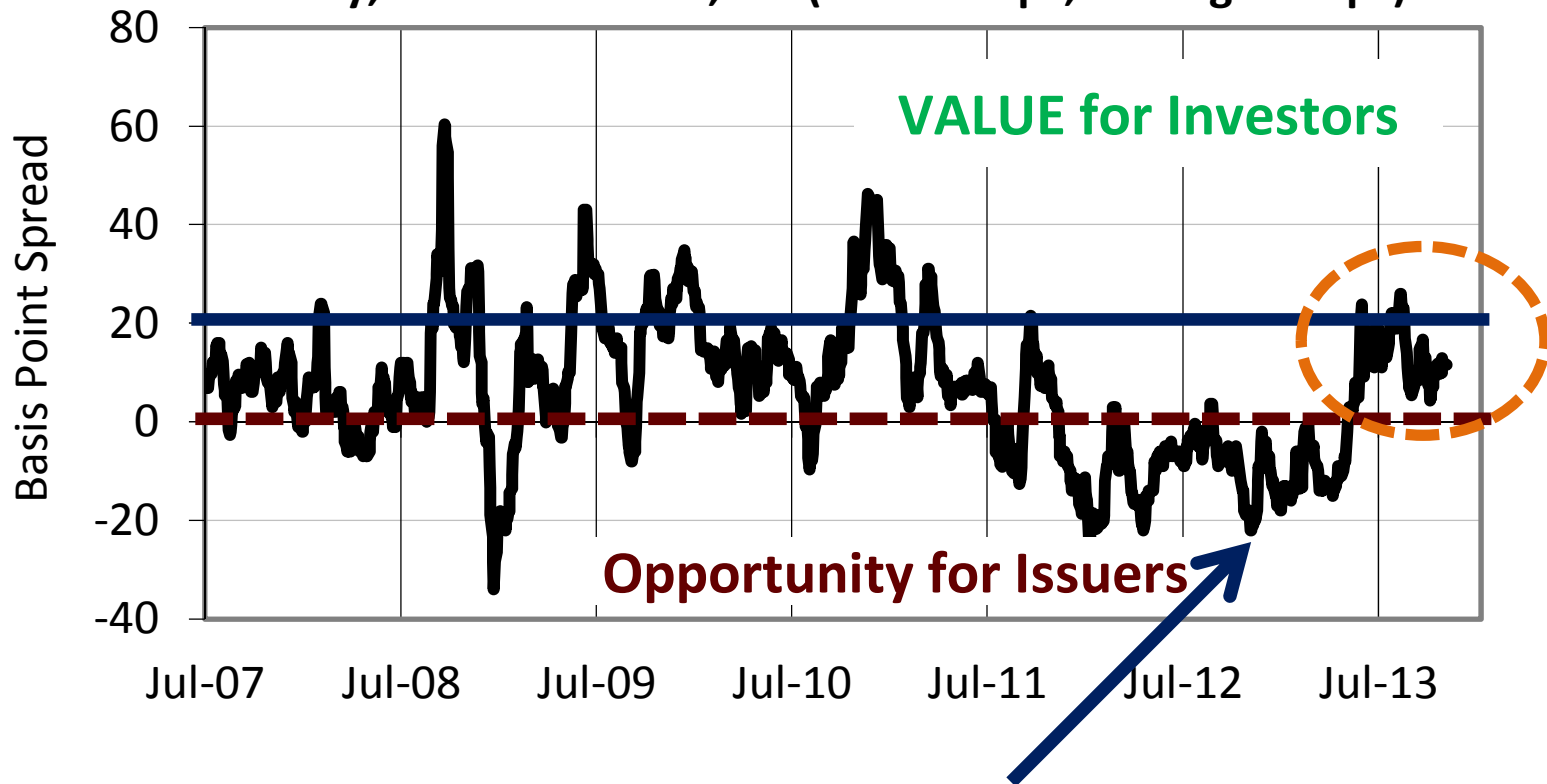


■ Average TRR (through last year end) ■ 2013

MMA ANNUAL 10-YEAR MATURITY TRR: 1983-2013
Average: 6.47%; 2013: -4.76% (as of November '13)

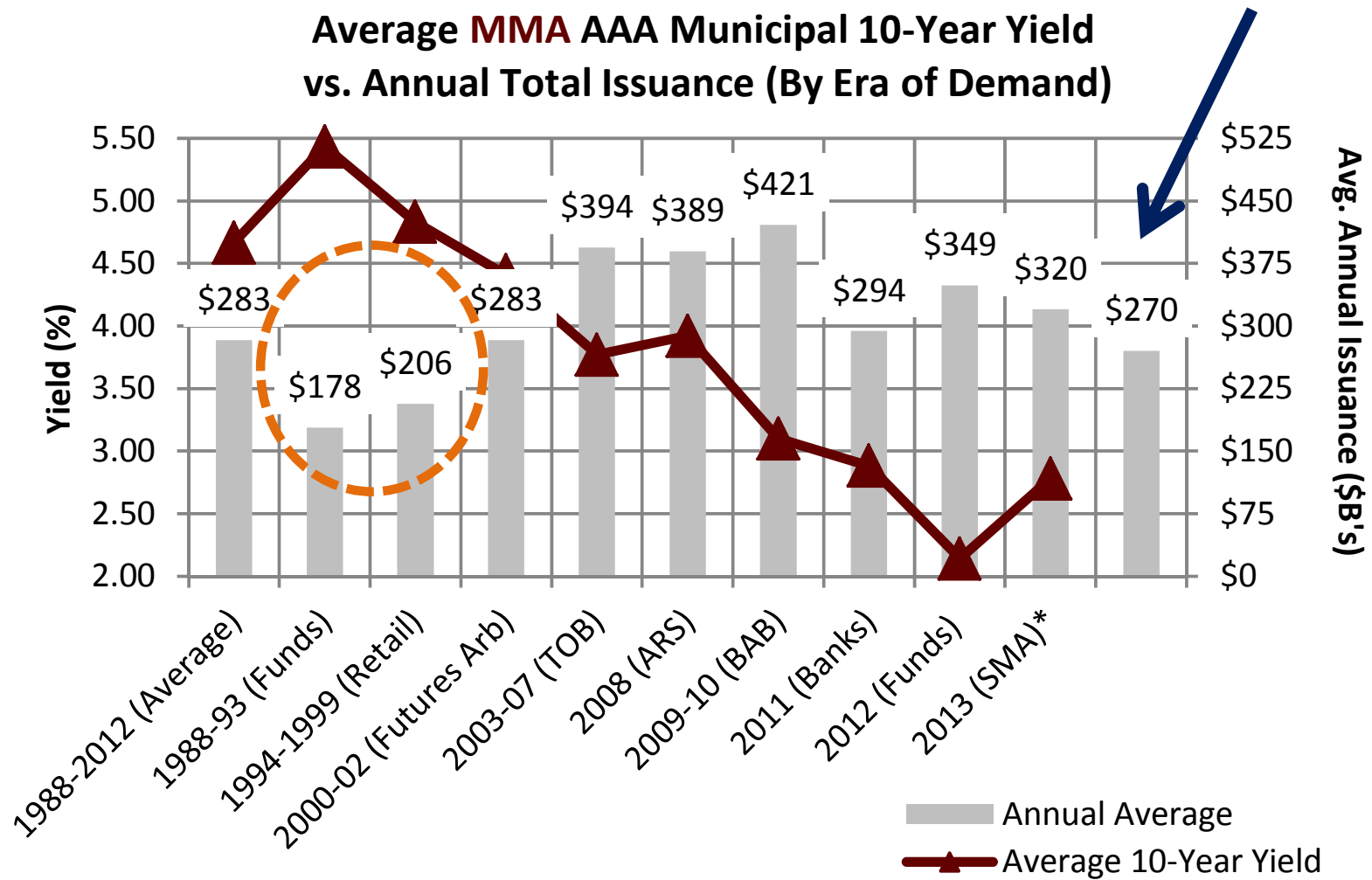


**MMA Municipal Value Index Indicative 10-yr Spread
Evaluated Barclay Index vs. MMA Median
July, '07 - November, '13 (Last: 12 bps; Average: 7 bps)**

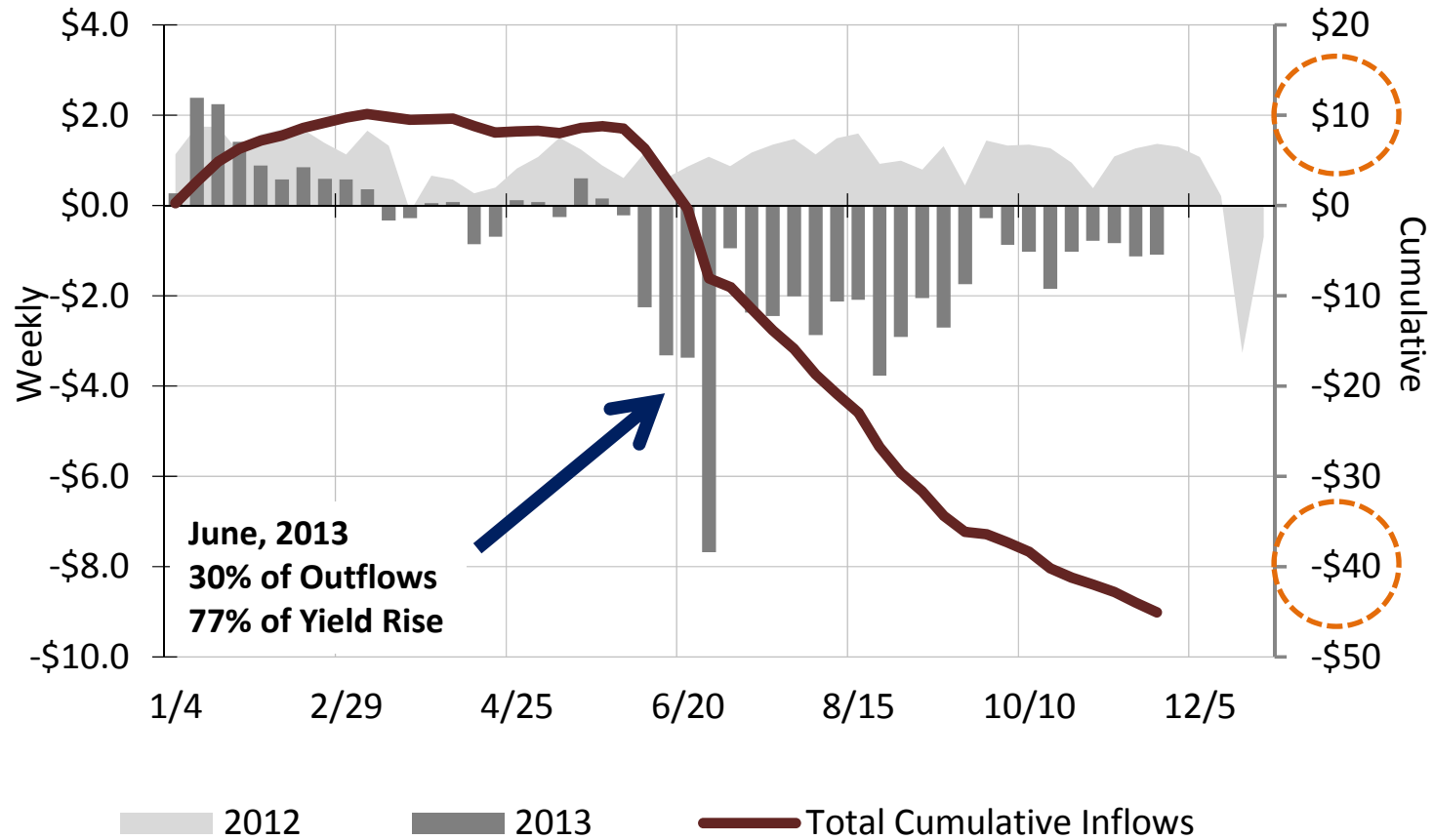


DEMAND COMPONENTS

Average MMA AAA Municipal 10-Year Yield vs. Annual Total Issuance (By Era of Demand)

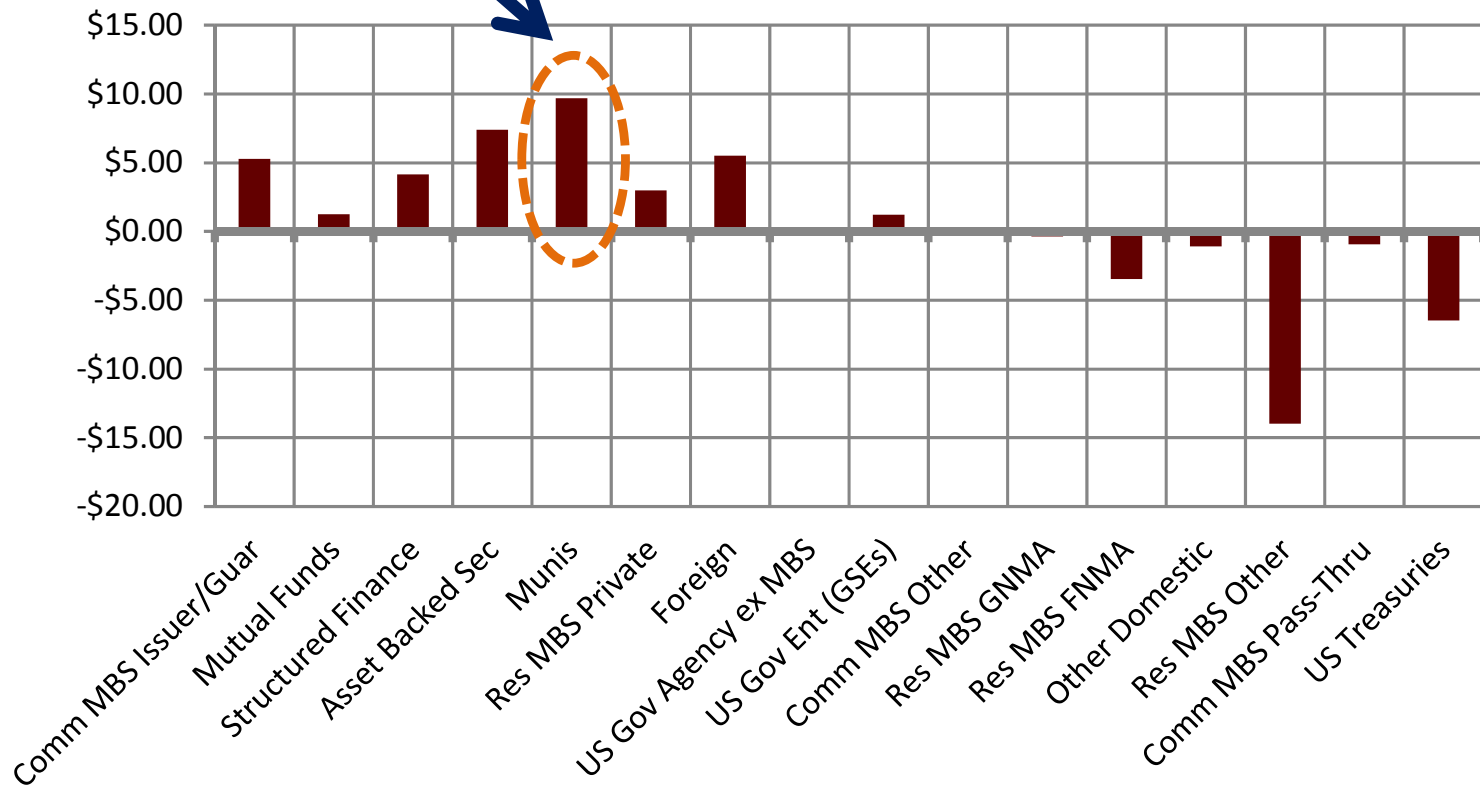


ICI Muni Mutual Fund Net Inflows in 2013 (\$B)

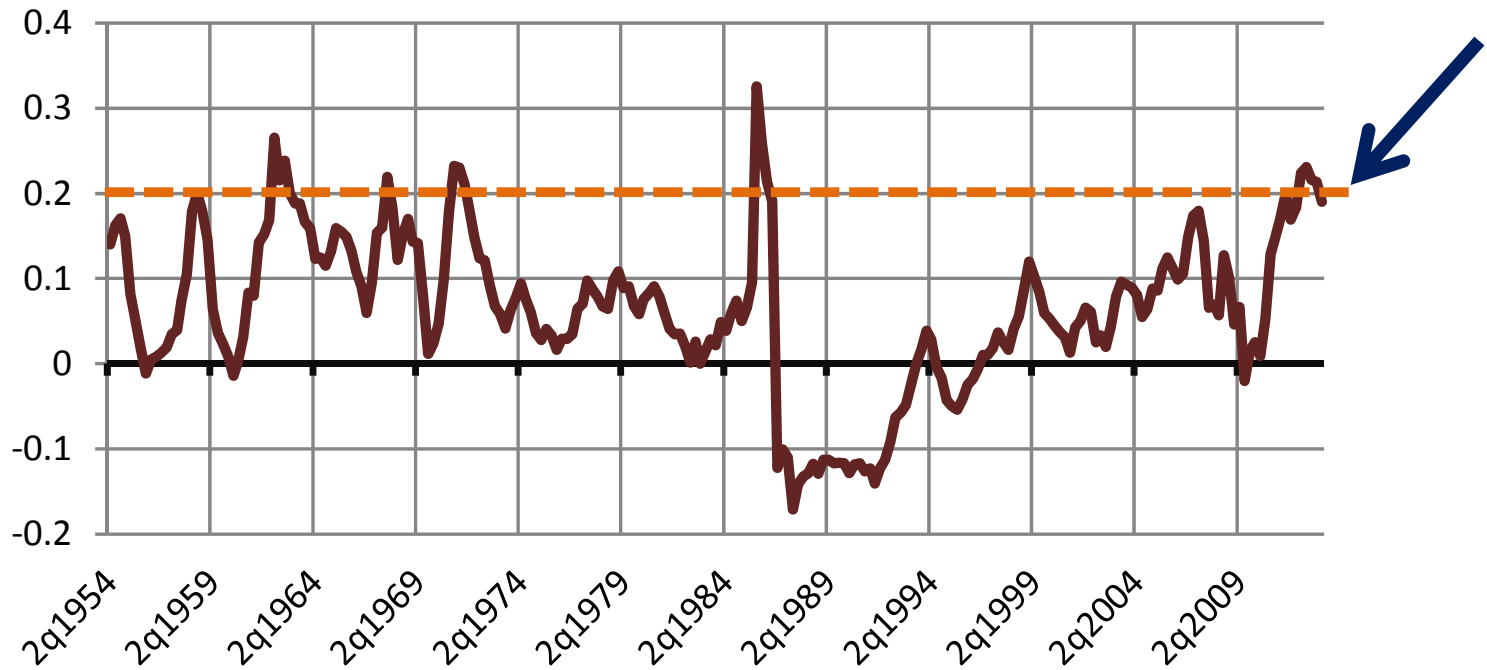


Source: BankRegData

Bank Holdings Change: 3Q (\$B's)

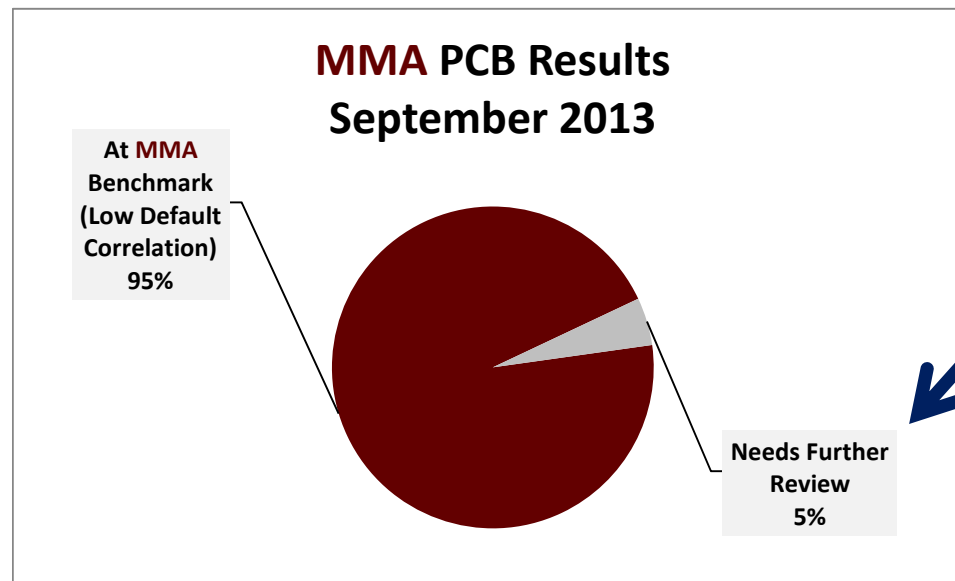


**Annual Growth in Bank Holdings of Municipal Bonds
(as of 2Q13)**



Source: Federal Reserve

| PCB Results, Bank Level Data | | | | | | | |
|------------------------------|------------------|------------------------|---------------------------|-----------------------------------|---|----------------------------|----------------------------|
| Bank | Total Cusips (#) | Total Par Value (\$MM) | Avg. Position Size (\$MM) | Cusips Needing Further Review (#) | Par Value Needing Further Review (\$MM) | % of Cusips Needing Review | % Par Value Needing Review |
| Totals | 11,147 | \$4,840.2 | \$0.43 | 556 | \$232.4 | 5.0% | 4.8% |
| All Reviews, Avgs | 210 | \$91.3 | \$0.57 | 10 | \$4.4 | 5.3% | 4.6% |
| Max | 1,105 | \$518.0 | \$3.38 | 90 | \$48.2 | 56.9% | 56.9% |
| Min | 7 | \$3.0 | \$0.14 | 0 | \$0.0 | 0.0% | 0.0% |



CREDIT UPDATE



| Par (and #) of Outstanding Muni Bonds With an Uncured Default, Reserve Draw, or Other Impairment (\$MM) | | | | | |
|---|--------------|----------------|----------------|----------------|----------------|
| Sector | NOV | All Notices | DEFAULT | Support | Other |
| ALL | \$6,312 (95) | \$52,892 (805) | \$16,895 (442) | \$20,475 (214) | \$15,521 (149) |
| Land Secured | \$115 (5) | \$4,918 (321) | \$3,725 (217) | \$890 (90) | \$303 (14) |
| IDB | \$911 (48) | \$3,585 (54) | \$2,850 (29) | \$649 (19) | \$85 (6) |
| Local Housing | none | \$806 (61) | \$694 (46) | \$32 (7) | \$80 (8) |
| Retirement | \$55 (3) | \$2,502 (87) | \$575 (41) | \$187 (10) | \$1,740 (36) |
| Hospital | \$326 (11) | \$984 (34) | \$402 (12) | \$262 (4) | \$320 (18) |
| Hotel | \$51 (1) | \$807 (13) | \$341 (8) | \$368 (4) | \$98 (1) |
| Student Housing | \$98 (1) | \$438 (12) | \$311 (7) | \$127 (5) | none |
| Other Risky Sectors | \$680 (17) | \$23,743 (152) | \$1,855 (68) | \$15,730 (49) | \$6,158 (35) |
| Safe Sectors (GO, Non-Go, Wtr, etc) | \$9,161 (9) | \$15,110 (71) | \$6,142 (14) | \$2,231 (26) | \$6,737 (31) |
| Initially Non-Rated Bonds | \$1,908 (77) | \$12,373 (586) | \$8,384 (384) | \$1,723 (122) | \$2,265 (80) |
| Initially Insured/LOC Bonds | \$4,140 (9) | \$28,146 (102) | \$6,267 (11) | \$10,950 (58) | \$10,929 (33) |
| Initially Rated, Uninsured Bonds | \$261 (8) | \$11,817 (94) | \$1,726 (28) | \$7,790 (33) | \$2,301 (33) |

MMA: Winter 2013-14 Reading List

- **The Signal and the Noise – Nate Silver**
- **Race Against the Machine – Erik Brynjolfsson & Andrew McAfee**
- **Who Owns the Future – Jaron Lanier**
- **Predictably Irrational (www.ted.com) – Dan Ariely**