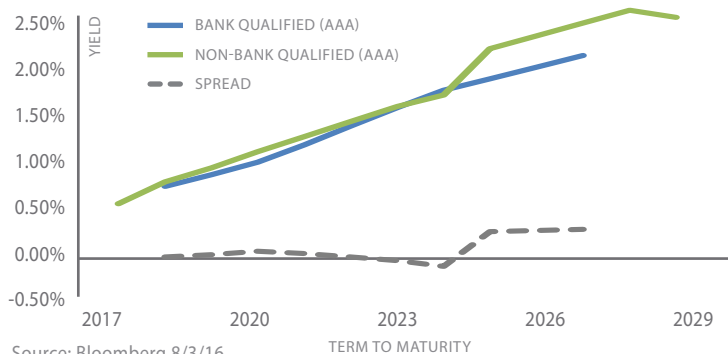


PUBLIC FINANCE MARKET UPDATE

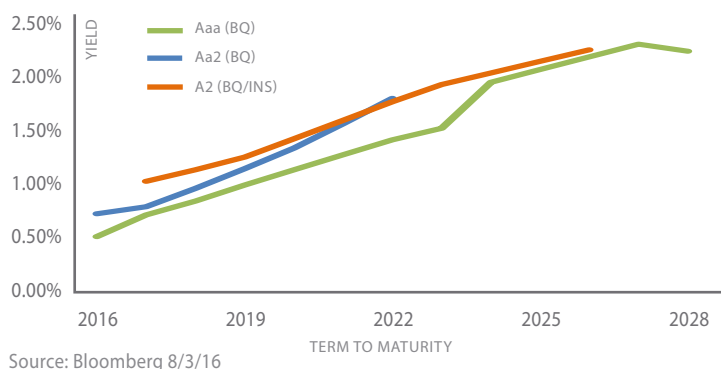
Prepared by PMA Securities, Inc.

AUGUST 2016

Non-BQ (AAA) vs. BQ (AAA)



Aaa (BQ) vs. Aa2 (BQ) vs. A2 (BQ/INS)



PUBLIC FINANCE TRENDS

More Compressed Interest Rates

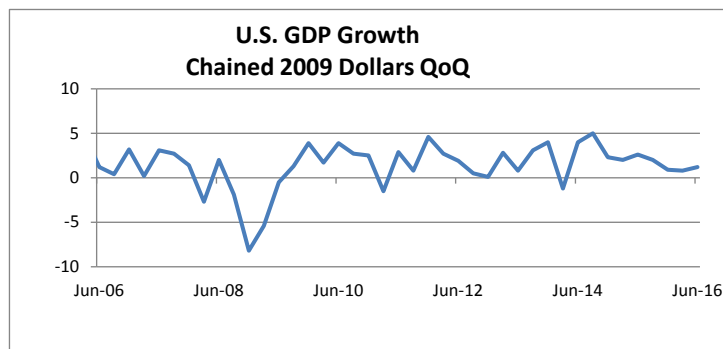
Graph 1 above compares a Bank-Qualified (BQ) issue to a Non Bank-Qualified (NBQ) issue and only shows a notable difference after 2023. This difference after 2023 is due to the impact of couponing. Overall, however, the difference between NBQ and BQ rates is still relatively muted due to the compression of interest rates post-Brexit. Graph 2 above-right reflects the value of credit strength and demonstrates the increasing cost an issuer must pay for deteriorating credit quality. Credit differential seems to be more notable on the short end of the yield curve and less so on the longer part of the curve, contrary to what one may expect. Again, this may be due to the current compressed interest rate environment or to the volatile Illinois market caused by political impasse.

FEATURED ECONOMIC INDICATOR

Disappointing U.S. GDP Growth

The U.S. economy experienced its second straight quarter of disappointing GDP growth. Growth was just 1.2%, well below estimates which had called for growth above 2.5%. Inventory drawdowns and declining business investment were the main drivers for the miss. Not everything was bad news, as consumer consumption increased at a 4.2% pace, as households remain confident about income and employment prospects. For the first half of the year, the economy grew at a 1% annual rate, marking it the slowest growth since 2011. Analysts had attributed first quarter GDP growth of 0.8% to a seasonal issue.

Source: Bloomberg, Barclays, Bureau of Economic Analysis, SNL Financial



U.S. Economic Indicators

Event	Event Date		Survey	Actual	Prior / Revised (R)
Unemployment Rate (%)	07/08/16	Jun	4.80	4.90	4.70
PPI Final Demand MoM (%)	07/14/16	Jun	0.30	0.50	0.40
CPI MoM (%)	07/15/16	Jun	0.30	0.20	0.20
Industrial Production MoM (%)	07/15/16	Jun	0.30	0.60	(0.30)
Univ. of Michigan Consumer Confidence	07/15/16	Jul	93.50	89.50	93.50
Housing Starts (K)	07/19/16	Jun	1,165.00	1,189.00	1,135.00
Consumer Confidence Index	07/26/16	Jul	96.00	97.30	97.40
Federal Funds Target Rate - Upper Bound	07/27/16	-	0.50	0.50	0.50
GDP Annualized QoQ (%)	07/29/16	2Q	2.50	1.20	1.60

Source: Bloomberg Finance L.P. 8/5/16

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