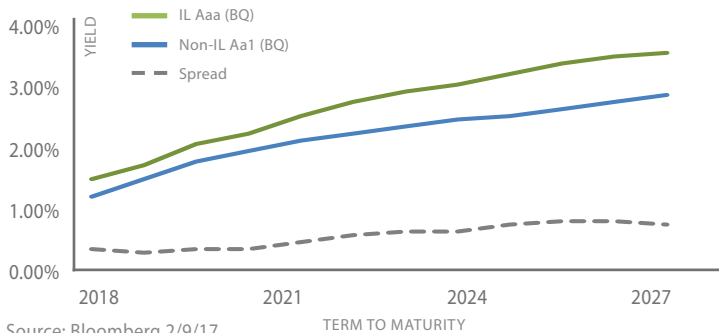


PUBLIC FINANCE MARKET UPDATE

Prepared by PMA Securities, Inc.

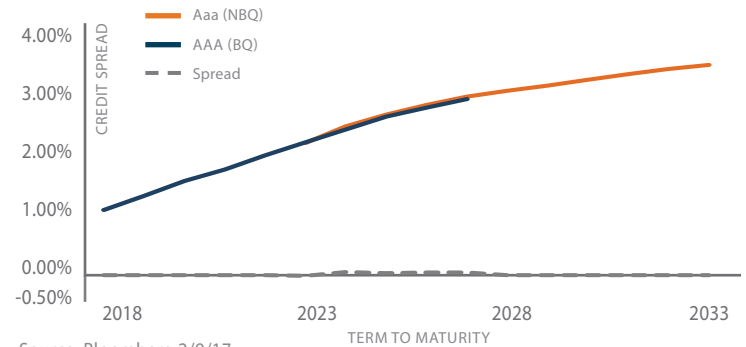
FEBRUARY 2017

IL Aaa (BQ) vs. Non-IL Aa1 (BQ)



Source: Bloomberg 2/9/17

Aaa (NBQ) vs. AAA (BQ)



Source: Bloomberg 2/9/17

PUBLIC FINANCE TRENDS

The Illinois Penalty Without The BQ Benefit

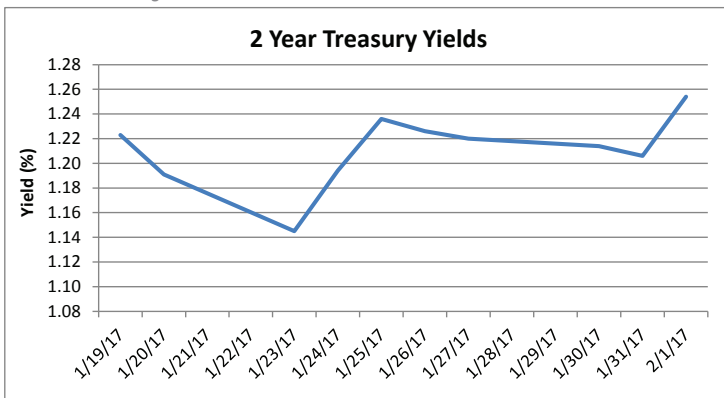
Graph 1 above illustrates PMA's analysis of the impact of the Illinois "Penalty" by comparing an Aaa rated IL transaction with an Aa1 rated non-IL transaction. Both were bank qualified (BQ). The results, while not unexpected, are difficult to accept. Although the non-IL transaction was a notch lower in credit rating, it sold with lower yields at every maturity by 20-65 basis points (bps). As expected, the penalty is greater on the longer end of the yield curve. Graph 2 above-right illustrates the impact of bank qualification. While BQ bonds typically sell at lower yields, this benefit has been muted for several months now. This month is no exception as the graph shows an Aaa rated NBQ bond issue selling at nearly the same levels as an AAA rated BQ bond issue through 2027, the year through which there are overlapping maturities. Beyond 2027, the difference between BQ and NBQ yields may be impacted by couponing.

FEATURED ECONOMIC INDICATOR

Post-Inauguration Volatility

Since President Donald Trump was inaugurated on January 20, 2017, a steady stream of formal policy announcements, comments and tweets have moved markets. Equity markets initially reacted favorably, but have cooled in recent days. Treasury bond yields have been volatile as well. Yields initially moved down, but turned higher later in the President's first week as more market moving news continued to unfold. In general, news on regulation and taxes were positive for risk sentiment while some news on trade policy was negative. So far, little information has been provided regarding fiscal stimulus and this uncertainty has likely further contributed to volatility in rates.

Source: Bloomberg



Source: Bloomberg

U.S. Economic Indicators

Event	Event Date	Period	Survey	Actual	Prior / Revised (R)
Retail Sales Ex. Auto (MoM)	01/13/17	DEC	0.5%	0.2%	0.3% (R)
Consumer Price Index (YoY)	01/18/17	DEC	2.1%	2.1%	1.7%
Core CPI (YoY)	01/18/17	DEC	2.2%	2.2%	2.1%
Building Permits	01/19/17	DEC	1225K	1210K	1212K (R)
Chicago Fed National Activity Index	01/26/17	DEC	-0.05	0.14	-0.33 (R)
GDP Annualized (QoQ)	01/27/17	4Q A	2.2%	1.9%	3.5%
Durable Goods Orders Ex. Transportation (MoM)	01/27/17	DEC	0.5%	0.5%	1.0%
Change in Nonfarm Payrolls	02/03/17	DEC	170K	--	144K
Unemployment Rate	02/03/17	DEC	4.7%	--	4.7%

Source: Bloomberg Finance L.P. 2/1/17

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