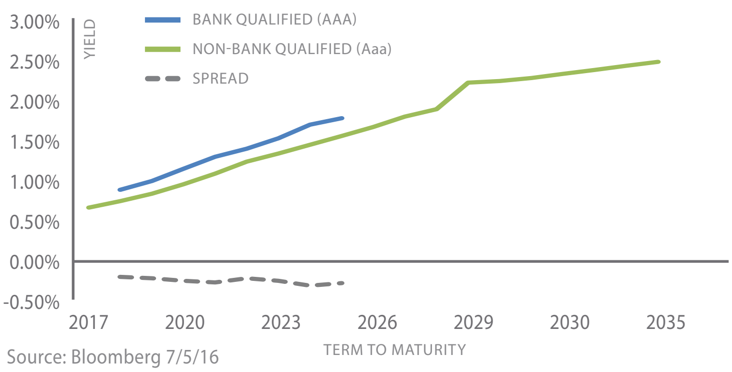
PMA SECURITIES

PUBLIC FINANCE MARKET UPDATE

Prepared by PMA Securities, Inc.

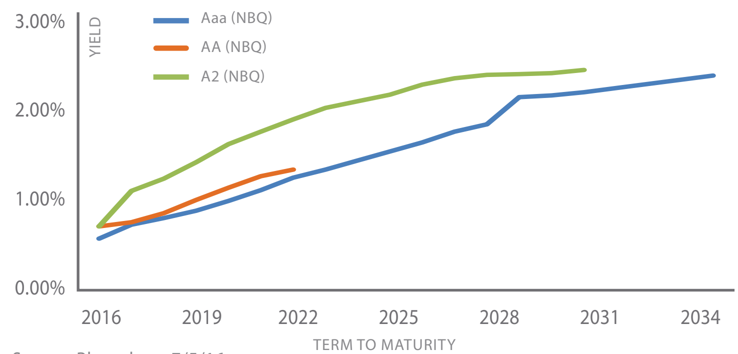
JULY 2016

BQ vs. Non-BQ (Aaa/AAA)



Source: Bloomberg 7/5/16

AAA (NBQ) vs. AA (NBQ) vs. A (NBQ)



Source: Bloomberg 7/5/16

PUBLIC FINANCE TRENDS

Historically Low Interest Rates

Graph 1 above compares a Bank-Qualified (BQ) issue to a Non Bank-Qualified (NBQ) issue. This month's data again surprisingly shows lower NBQ rates at every term of comparison. This is largely due to the compressed interest rates characterizing the municipal market and exacerbated by the recent Brexit Referendum. The vote caused uncertainty in the equity market compelling investors to invest in more stable securities like US Treasury and municipal bonds. In addition, there may be other market factors (e.g., maturity block size, investor preferences, etc.) further explaining this phenomenon. Graph 2 above-right reflects the value of credit strength and demonstrates the increasing cost an issuer must pay for deteriorating credit quality. The yield difference between "AAA" and "AA" is not nearly as large as that between "AA" and "A."

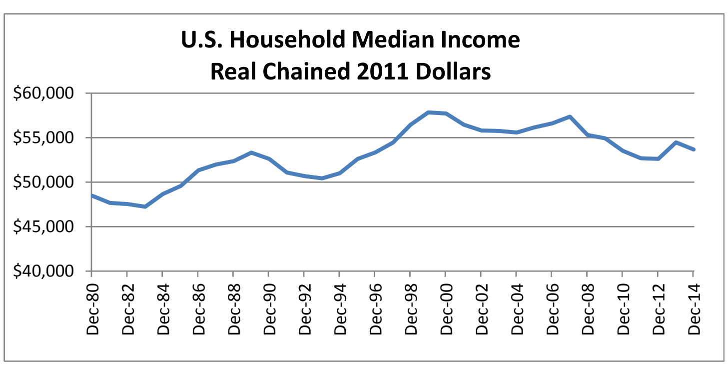
Source: Bloomberg

FEATURED ECONOMIC INDICATOR

Income Inequality Grows Frustration

U.S. Household Median Income has fallen, after adjusting for inflation, since its peak in 1999 according to a Census Bureau report. Much of this decline has occurred since 2008, a period marked by underwhelming growth that has done little to improve living standards for a large portion of Americans. "Anyone wondering why people in this country are feeling so ornery need look no further than this report," said Lawrence Mishel, president of the Economic Policy Institute, a left-leaning think tank. Low incomes may be contributing to populist political movements as anti-establishment views are taking hold across the globe.

Source: U.S. Census Bureau, Wall Street Journal



Source: Bloomberg

U.S. Economic Indicators

Event	Event Date	Period	Survey	Actual	Prior / Revised (R)
Consumer Price Index (YoY)	06/16/16	MAY	1.1%	1.0%	1.1%
Core CPI (YoY)	06/16/16	MAY	2.2%	2.2%	2.1%
Existing Home Sales	06/22/16	MAY	5.55m	5.53m	5.43m (R)
Chicago Fed National Activity Index	06/23/16	MAY	0.11	-0.51	0.05 (R)
S&P Case-Shiller Composite Home Price Index (YoY)	06/28/16	APR	5.41%	5.44%	5.48% (R)
Consumer Confidence	06/28/16	JUN	93.5	98.0	92.4 (R)
ISM Manufacturing	07/01/16	JUN	51.3	53.2	51.3
Change in Nonfarm Payrolls	07/08/16	JUN	170K	--	25K
Unemployment Rate	07/08/16	JUN	4.8%	--	4.7%

Source: Bloomberg Finance L.P. 7/1/16

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