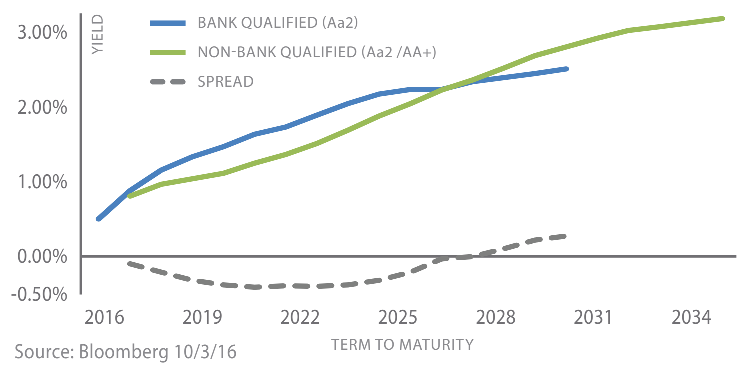
PUBLIC FINANCE MARKET UPDATE

Prepared by PMA Securities, Inc.

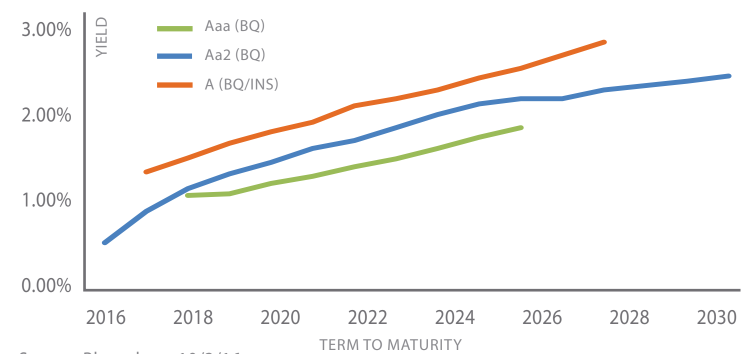
OCTOBER 2016

Non-BQ vs. BQ (Aa2)



Source: Bloomberg 10/3/16

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



Source: Bloomberg 10/3/16

PUBLIC FINANCE TRENDS

Low Rates Persist

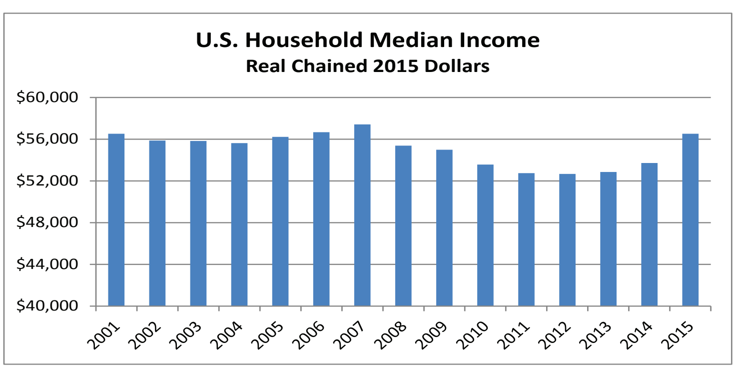
Graph 1 above compares a Bank-Qualified (BQ) issue to a Non Bank-Qualified (NBQ) issue and shows that there is still little to no BQ benefit on the early part of the yield curve. With interest rates expected to remain low, the diminished BQ benefit should continue to be expected. Graph 2 reflects the value of credit strength and demonstrates the increasing cost an issuer must pay for deteriorating credit quality. As one would expect, the impact of a lower credit is larger on the long end of the curve. Additionally, the municipal market has seen significant volatility in short-term interest rates. The month of September saw the SIFMA Index, the index for municipal short-term rates, rise as much as 80 basis points due to Money Market Reform that has reduced investor demand for short-term municipal product.

FEATURED ECONOMIC INDICATOR

Household Income Improves, Methodology Changes

The U.S. Census Bureau reported in September that real median household income increased by 5.2% in 2015. This is the first annual increase in real median household income since 2007 and the largest increase on record. Income increases in recent years were small and failed to keep pace with inflation. Growth in 2015 was strong; however, real median household income in 2015 remained 1.6% lower than the pre-crisis peak in 2007. Furthermore, changes to the survey in 2013 and 2014 may have contributed to the sudden growth. Higher employment also likely contributed to income growth.

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



Source: Bloomberg

U.S. Economic Indicators

Event	Event Date		Survey	Actual	Prior / Revised (R)
Consumer Price Index (YoY)	09/16/16	AUG	1.0%	1.1%	0.8%
Core CPI (YoY)	09/16/16	AUG	2.2%	2.3%	2.2%
Chicago Fed National Activity Index	09/22/16	AUG	0.15	-0.55	0.24 (R)
Existing Home Sales	09/22/16	AUG	5.45m	5.33m	5.38m (R)
Consumer Confidence	09/27/16	SEP	99.0	104.1	101.8 (R)
Durable Goods Orders Ex. Transportation (MoM)	09/28/16	AUG	-0.5%	-0.4%	1.1% (R)
ISM Manufacturing	10/03/16	SEP	50.4	51.5	49.4
Change in Nonfarm Payrolls	10/07/16		170K	--	126K
Unemployment Rate	10/07/16	SEP	4.9%	--	4.9%

Source: Bloomberg Finance L.P. 10/3/16

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