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Change in Market Sentiment—Muni Yields Up

This week has produced a meaningful rise in municipal bond yields, driven by the following:

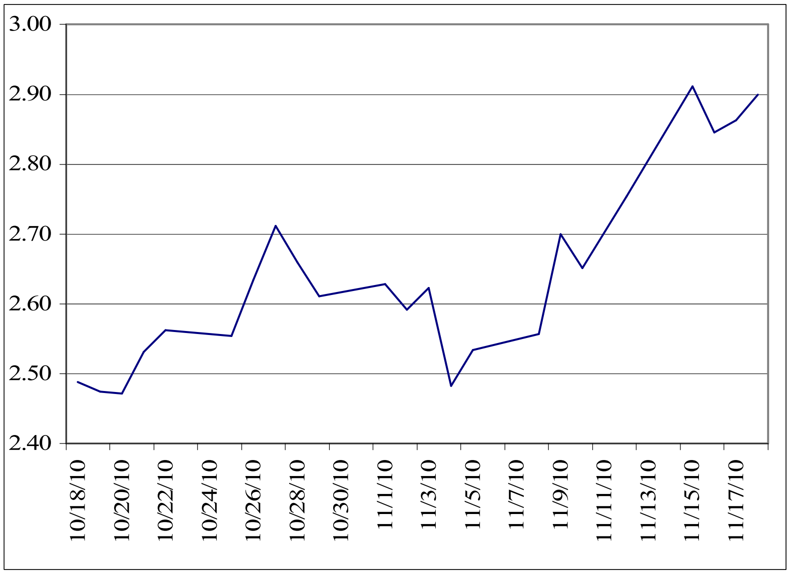

***Figure 1**. U.S. 10-Year On-the-Run Quoted Yield* *Source: Bloomberg*

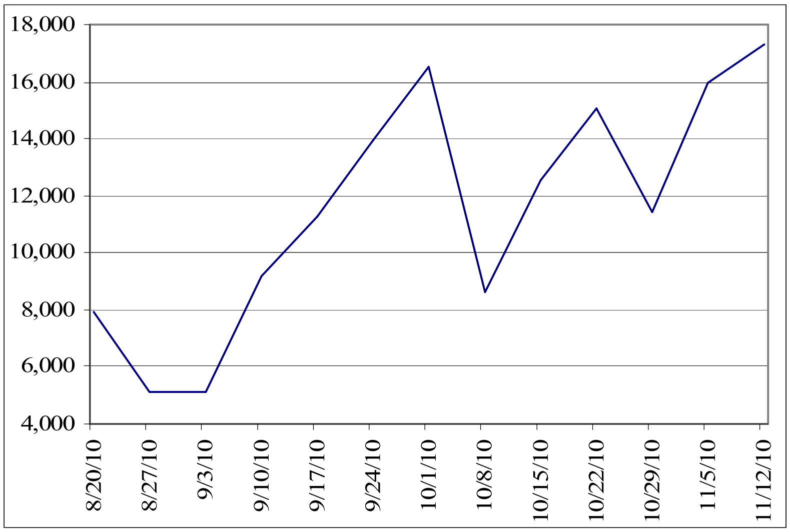

***Figure 2**. 30-Day Visible Municipal Supply (in millions)* *Source: Bond Buyer*

- Weakness in the U. S. Treasury market where yields have risen. Investors have more fully digested QE2 details from the Fed and longer term inflation expectations have risen ***(Figure 1)***.

- Increased quantity of new issue municipal bonds expected by year end. The 30-day supply calendar has filled up as issuers attempt to take advantage of historically low rates and of Build America Bond (BAB) taxable options ***(Figure 2)***.

- Uncertainty regarding personal income tax levels for 2011 and the Build America Bond (BAB) program scheduled to expire on 12/31/10. Proposals to extend the BAB program are on the table, but gaining approval in today's political environment is uncertain. BAB program termination would force issuance as tax-exempt and push supply even higher. BAB's have accounted for more than 33% of total municipal issuance thus far in 2010.

As of Thursday, November 18th, municipal bond yields appear to have stabilized as buyers have been attracted to higher yields and some new issues have been withdrawn due to the higher funding costs now demanded by the market. This volatility, while not desirable, is a natural reaction from a market in the process of digesting sentiment changes driven by recent elections and monetary policy decisions.

Our periodic newsletter, to be published within the next few days, will contain a more complete discussion of our outlook for interest rates and the fixed income markets.