

TOP ISSUING SECTOR

| | |
|-------|-----------------|
| 2009 | General Purpose |
| 2010 | General Purpose |
| 2011 | General Purpose |
| 2012 | General Purpose |
| 2013 | General Purpose |
| 2014† | General Purpose |
| 2015‡ | General Purpose |

Source: Thomson Reuters, SIFMA 2014 Municipal Issuance Survey
†Data to December 2, 2014
‡Survey estimate

Issuance Forecast Highlights

| MUNICIPAL ISSUANCE FORECAST | | | |
|--|-------|----------|----------|
| \$ Billions | 2014 | 2015 (f) | % Change |
| Long-Term Issuance | | | |
| Tax-Exempt Municipal Issuance | 273.5 | 275.0 | 0.5% |
| Taxable Municipal Issuance | 23.2 | 30.0 | 29.3% |
| AMT Municipal Issuance | 8.6 | 10.0 | 16.7% |
| Short-Term Issuance | 42.8 | 42.5 | -0.7% |
| Total | 348.1 | 357.5 | 2.7% |
| of which are Long-Term Municipal Bonds | 305.3 | 315.0 | 3.2% |
| Refunding as % of Long-Term Tax-Exempt Total | 46% | 45% | -2.6% |
| Other Municipal Categories | | | |
| VRDO Issuance | 6.6 | 9.0 | 35.5% |
| Direct Placements/Bank Loans | N/A | 35.0 | N/A |
| Floating Rate Note (FRN) Issuance | 7.6 | 12.5 | 63.9% |

Respondents to the 2015 SIFMA Municipal Issuance Survey¹ expect total municipal issuance, both short- and long-term, to reach \$357.5 billion in 2015, slightly up from the \$348.1 billion estimated issuance in 2014.² While short-term issuance is expected to remain largely unchanged in 2015, with \$42.5 billion in short-term notes expected in 2015, compared to \$42.8 billion in 2014, long-term issuance is expected to rise in 2015, with \$315.0 billion in long-term bonds expected in 2015, compared with \$305.3 billion in 2014.

Respondents were polled as to events that would most likely have the greatest effect on the municipal market in 2015. Survey respondents, as in prior years, continue to agree that the curtailment of the tax-exemption on municipal bond interest would have the greatest impact on the municipal market. Respondents also considered fiscal pressures resulting from underfunded pensions and continued general economic weakness to also have some importance in 2015. One respondent opined that “fear trades” was a highly important factor, while another responded that growth of “deferred maintenance liabilities” was also quite important as well.

Respondents project long-term tax-exempt municipal issuance to reach \$275.0 billion in 2015, nearly unchanged from the \$273.5 billion issued in 2014.³ On the other hand, both taxable and alternative minimum tax (AMT) issuance are expected to rise in 2015: projected long-term taxable municipal issuance for 2015 is \$30.0 billion, a 29.3 percent increase from issuance in 2014,⁴ and projected long-term alternative minimum tax (AMT) issuance is \$10.0 billion in 2015, a 16.7 percent increase from 2014.⁵

Refundings are expected to remain unchanged in 2015, with 45.0 percent of long-term tax exempt issuance expected as refundings in 2015, compared to 46.0 percent in 2014.⁶

Respondents expect variable-rate demand obligation (VRDO) issuance to rise slightly to \$9.0 billion in 2015, recovering from the record low of \$6.6 billion in 2014.⁷ Direct placements/bank lending is expected to fall from estimates last

¹ The survey was conducted from November 7 – November 21, 2014. The forecasts discussed in the text and appearing in the accompanying data tables are the median values of all submissions of individual member firms, unless otherwise specified.

² 2014 data are to December 2, 2014, scaled to full year approximations; source: Thomson Reuters.

³ Survey estimates for long-term tax-exempt municipal bonds ranged from \$240.0 billion to \$350 billion for 2015.

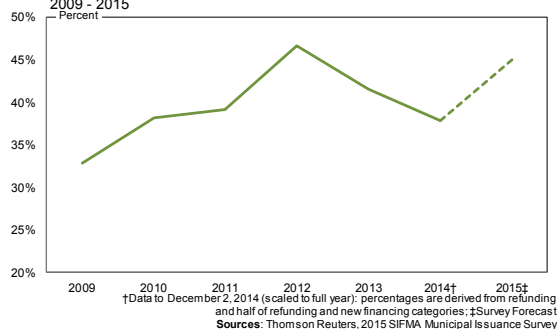
⁴ Survey estimates for long-term taxable municipal bonds ranged from \$20.0 billion to \$38.0 billion for 2015.

⁵ Survey estimates for long-term AMT municipal bonds ranged from \$5.0 billion to \$15.0 billion for 2015.

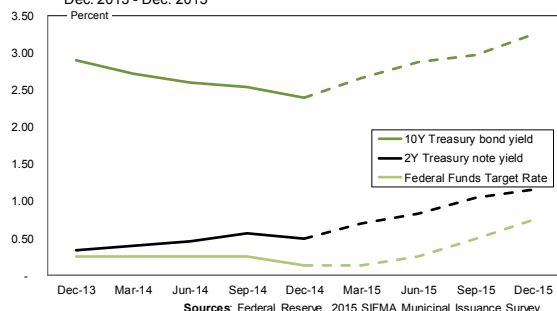
⁶ Survey estimates for refundings as a percentage of long-term tax-exempt issuance ranged from 30.0 percent to 65.0 percent in 2015.

⁷ Survey estimates for VRDO issuance ranged from \$2.0 to \$10.0 billion in 2015.

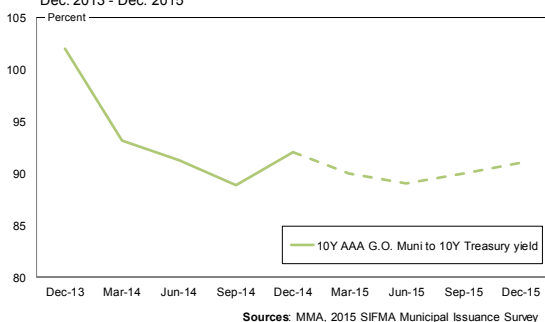
Refundings as % of Total Long-Term Tax Exempt Municipal Issuance
2009 - 2015



Interest Rates
Dec. 2013 - Dec. 2015



10-Year AAA G.O. Muni to 10-Year Treasury
Dec. 2013 - Dec. 2015



year (\$45.0 billion) to \$35.0 billion, or 9.8 percent of long-term issuance, in 2015.⁸ Although floating rate note issuance (FRN) volume in 2014 failed to meet expectations (a projected \$7.6 billion issued in 2014, compared to the \$18.5 billion expected by respondents in last year's survey), respondents still expect FRN issuance to remain robust in 2015 with \$12.5 billion of issuance.⁹

The majority of respondents (64 percent) agreed that the largest issuing use-of-proceeds sector will be general purpose for 2015, with the balance split between transportation and education as the largest sector. In prior years, the general purpose sector has been the largest issuing sector, by gross amount.

Respondents expressed a wide range of views regarding municipal defaults, defined for the purpose of the survey as the occurrence of a missed interest or principal payment or a bankruptcy filing. The median response is for 25 issuers to default for a par value of \$1.0 billion in 2015.¹⁰

Interest Rate Forecast Highlights

Survey respondents offered diverging views on interest rates in the coming year. The federal funds rate is expected to rise from 0.13 percent in end-December 2014 to 0.75 percent by end-December 2015.¹¹ The two-year Treasury note yield is expected to rise from 0.50 percent end-December 2014 to 1.15 percent by end-December 2015.¹² The 10-year Treasury note yield is also expected to climb from 2.4 percent end-December 2014 to 3.25 percent end-December 2015.¹³ The ratio of the yield on 10-year AAA G.O. municipal securities to the 10-year Treasury benchmark is expected to remain steady, from 92.0 percent end-December 2014 to 91.0 percent by end-December 2014 and remain there by end-December 2015.¹⁴

⁸ Survey estimate for bank loans/direct purchases ranged from \$8.0 billion to \$60.0 billion in 2015.

⁹ Survey estimates for floating rate note issuance ranged from \$1.0 billion to \$30.0 billion in 2015.

¹⁰ Survey estimate for the number of issuers to default ranged from 6 to 82 issuers. Par value estimated to be in default ranged from \$0.5 billion to \$12.0 billion.

¹¹ The range for the federal funds target rate was 0 percent to 0.25 percent in December 2014, 0 percent to 0.25 percent in March 2015, 0.13 percent to 1.00 percent in June 2015, 0.25 percent to 1.00 percent in September 2015, and 0.25 percent to 1.25 percent in December 2015.

¹² The range for the two-year Treasury note yield was 0.40 percent to 0.75 percent in December 2014, 0.45 percent to 1.00 percent in March 2015, 0.5 percent to 1.25 percent in June 2015, 0.5 percent to 1.5 percent in September 2015, and 0.5 percent to 1.75 percent in December 2015.

¹³ The range for the 10-year Treasury yield was 2.25 percent to 2.80 percent in December 2014, 2.20 percent to 3.00 percent in March 2015, 2.35 percent to 3.20 percent for June 2015, 2.50 percent to 3.35 percent in September 2015, and 2.60 percent to 4.00 percent in December 2015.

¹⁴ The range for the 10-year AAA G.O. muni yield as a percentage of the 10-Year Treasury bond yield was 88 percent to 95 percent in December 2014, 81 percent to 100 percent in March 2015, 84 percent to 105 percent in June 2015, 82 percent to 100 percent in September 2015, and 80 percent to 105 percent in December 2015.

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