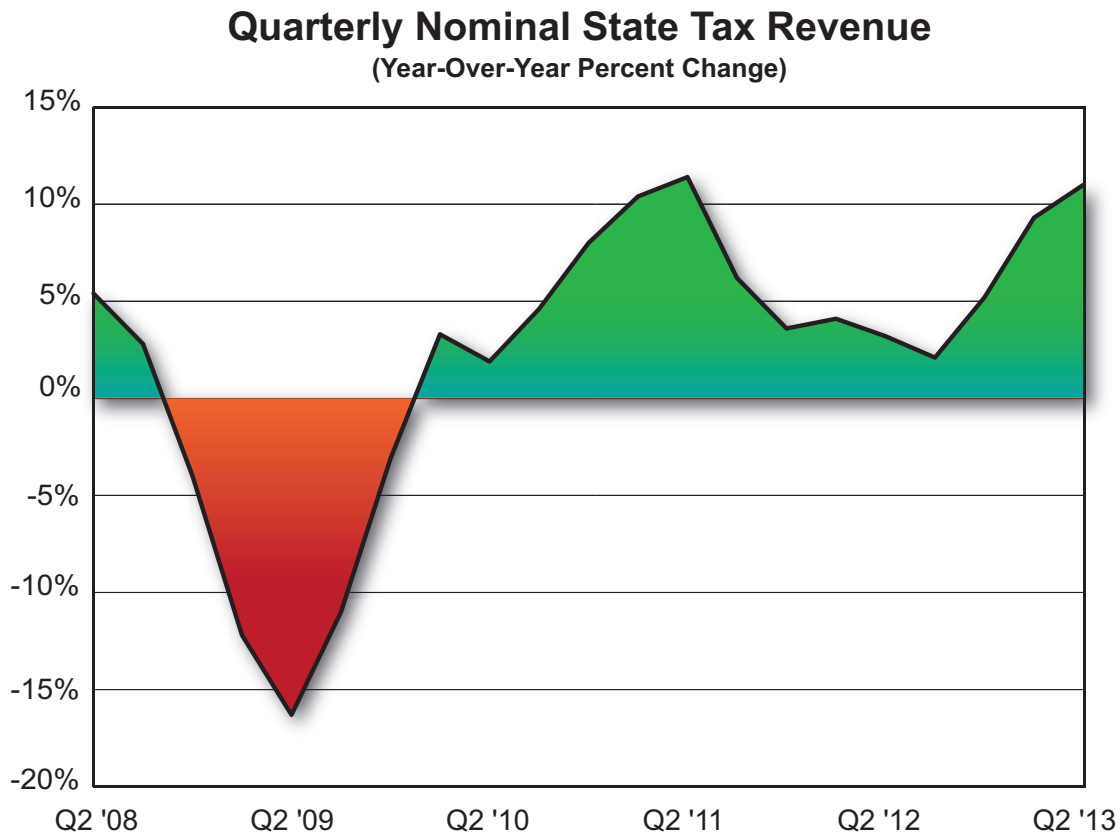


# Chins Are Down...But Revenues Are Up



Source: The Nelson A. Rockefeller Institute of Government

## View from the Observation Deck

1. The BofA Merrill Lynch 22+ year U.S. Municipal Bond Index was down 6.34%, on a total return basis, year-to-date through 9/23, according to Bloomberg. It was down 8.55% from 5/2/13-9/23/13.
2. Interest rates began rising in early May after the Federal Reserve broke the news it was contemplating an exit strategy (now expected to be a tapering approach) from its monthly bond-buying stimulus program.
3. The yield on the benchmark 10-Year T-Note rose 107 basis points from 5/2/13-9/23/13. The combination of rising rates and Detroit's bankruptcy announcement induced a sizeable sell-off in the municipal bond market.
4. Neither of these events should have come as a surprise to investors, in our opinion. Fixed-income investors were impacted across the board by the rise in rates. What may surprise them is what is in the chart.
5. Just 18 days before Detroit filed for federal bankruptcy protection (largest ever involving more than \$18 billion in obligations), tax collections at the state level had just registered their 14th consecutive quarterly y-o-y increase.
6. Preliminary data compiled by the Rockefeller Institute shows that total state tax collections rose 11.0% (y-o-y) in Q2'13, according to its own release.
7. Investors who either own or are looking to invest in municipal bonds should focus on industry fundamentals over isolated events, in our opinion.

*This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The BofA Merrill Lynch 22+ Year U.S. Municipal Securities Index is a subset of The BofA Merrill Lynch U.S. Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to 22 years.*