

## Market Commentary

### Period Summary

Signs of a renewed economic slowdown, continued weakness in the European banking system and increased political discord rattled the financial markets in the third quarter of 2011. These factors, along with a benign inflation environment, resulted in a dramatic decline in Treasury and investment grade municipal yields as investors sought refuge in safe haven investments.

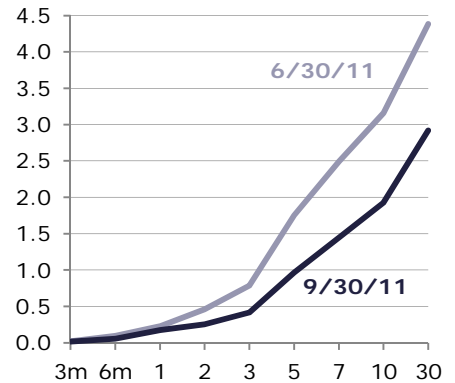
The rally in the municipal bond market was supported by both a continued lower level of issuance during the first two months of the quarter and increased demand. In addition, in early August the Federal Reserve discussed weaker economic growth projections and pledged to keep borrowing costs unchanged until at least mid-2013. This announcement led to a further decline in interest rates as investors grew more skeptical of the pace of the U.S. economic recovery.

Briefly during the third quarter, concern centered on S&P's downgrade of the U.S. credit rating from AAA to AA+ and how this decision would impact Treasuries and subsequently the municipal market. Ironically, Treasury yields declined sharply shortly after the announcement and have remained at historically low levels since. As for the municipal market's response, we discussed our outlook in our August 8th bulletin titled, *Update on S&P Downgrade of U.S. Credit Rating*: "We believe the fundamentals of high quality municipals continue to improve given recent upward trends in revenues and better expenditure controls. Municipals, interestingly, may be beginning to play a safe haven role for some investors." The majority of investment grade municipal yields declined throughout the remainder of the third quarter.

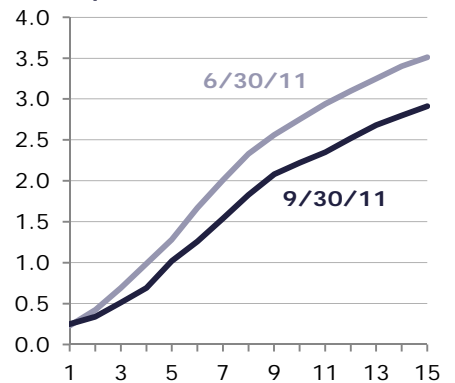
The underlying themes impacting the market in the third quarter were the macroeconomic issues facing the U.S. and Europe. At home, a high unemployment rate, a depressed housing market and rising food and energy costs continued to weigh on the consumer. In Europe, market weakness was spurred by the more immediate threat of a Greek debt default and its ramifications for European banks and the global economy. The equity market experienced significant volatility throughout the quarter and the S&P 500 suffered a loss of 13.9%.

As mentioned in our 2<sup>nd</sup> Quarter commentary, skeptics argued that the fixed income market was overvalued and prone to a rise in rates. Rates declined even further in the third quarter and these skeptics have become more vocal given the low rate environment that exists today. We continue to believe that interest rates will remain in a lower-than-normal range for the remainder of the year and likely well into 2012. We believe the

Treasury Yield Curves



Municipal Yield Curves



Source: JP Morgan DataQuery

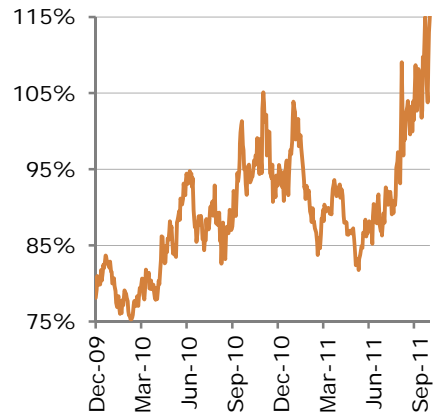
Federal Reserve's pledge to keep borrowing costs unchanged until mid-2013 and its subtle announcement that more monetary accommodation may be on the horizon will continue to keep a lid on rates.

Tax-free, investment grade municipal yields did not decline as much as Treasuries; consequently, municipal/Treasury yield ratios increased to historically attractive levels. We believe that this relative cheapness will continue to attract cross-over or non-traditional municipal bond buyers in search of higher yields. Issuers have also been taking advantage of the attractive borrowing rates and municipal issuance surged over the final three weeks of the quarter. This increase in supply has the potential to put upward pressure on municipal yields despite the generally strong demand experienced over the last several months. While we anticipate this growth to continue throughout the 4th quarter, we do not expect it to reach the same levels of the 4th quarter of 2010, when the market was besieged with new issuance in anticipation of the expiration of the Build America Bonds program.

We believe austerity measures at the local and state level will continue to be a factor as state and local officials have shown the political will to make hard budgetary choices. While the U.S. economic environment will continue to present challenges for issuers, increased revenues and more effective cost controls point to an improving marketplace. Therefore, we remain optimistic about the fundamentals of investment grade municipals. It is important to note that we continue to aim to manage our portfolios in a conservative, risk managed approach with an emphasis on capital preservation. Our target interest rate exposure remains modestly defensive. While we anticipate rates to remain in a low, range-bound environment in the near term, we cannot justify an aggressive interest rate posture given the current overall low level of yields.

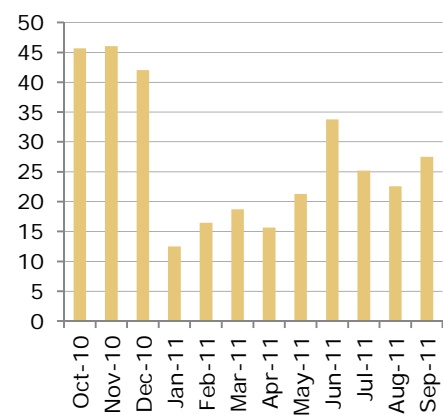
*The opinions expressed herein are solely attributable to Samson and should not be construed as an offer to buy or a solicitation to sell any securities. Inherent in any investment is the risk of loss. All factual information and statistical data in this document were obtained or derived from public sources. Any statements regarding future events constitute only subjective views or beliefs, are not guarantees or projections of performance, should not be relied on, are subject to change due to a variety of factors, including fluctuating market conditions, and involve inherent risks and uncertainties, both general and specific, many of which cannot be predicted or quantified and are beyond our control.*

**10 Year Municipal/Treasury Ratios**



Source: JP Morgan DataQuery

**Municipal Issuance (\$Billions)**



Source: Bond Buyer