

MARQUETTE ASSET MANAGEMENT, INC.



Investment Management and Trust Services for Individuals, Families and Institutions • Trust Services provided by Marquette Trust

Municipal Bond Market Update

The normally staid world of municipal bonds has received significant attention in recent weeks as municipal bond insurers have come under increased scrutiny.

First, we at Marquette Asset Management would like to assure you that we only purchase high quality bonds for your accounts (unless you explicitly direct us otherwise). We constantly monitor your holdings.

Tax-exempt entities that issue municipal bonds at times purchase credit enhancement insurance from certain providers. They pay this “fee” or “premium” to obtain a AAA rating. This allows the issuer to pay less interest on their debt and it has worked well over the years. Municipal bonds rarely default and borrowing costs are lower.

What has happened recently is that the municipal bond insurers, sometimes referred to as monolines, began to insure non-municipal debt instruments. On these, they are incurring major losses and write-downs. Marquette Asset Management does not hold such instruments.

While this does not affect the underlying credit of the municipals you own, the possibility exists that the insurance companies could lose their AAA rating. If the monolines lose their AAA rating, the bonds they insure will revert to the higher of their underlying rating or the new monoline rating. When we invest for you, we look at the underlying rating of the issuer to verify its investment quality and creditworthiness, not just the insurance.

Certain short-term municipal paper has been affected as well. Yields have jumped substantially, but at the cost of potential liquidity. We do not believe that the incremental return is worth the liquidity risk.

We will continue to evaluate these changing market conditions. Marquette Asset Management would like to thank you for your confidence and support. As always, if you ever have any questions, please contact us at your convenience.

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