

## Trading Desk Commentary

As the week began, markets were given their first opportunity to react to the weekend's presidential elections in France and Greece. With Françoise Hollande unseating Sarkozy in France and the gains made by Alexis Tsipras in Greece's more convoluted election process, French and Greek voters sent a unified (and troubling) message: no more austerity. Both Hollande and Tsipras relied on anti-austerity platforms to accumulate support, claiming a new strategy is necessary to address Europe's fiscal crisis. The European Union has demanded that Greece slash spending and wages in order to qualify for the large bailout funds, a decision that spurred riots in the streets of Athens back in February. Now the Greeks are using voting ballots to show their resistance to the EU's austerity measures. In France, Hollande suggests that "growth" is the answer, not belt-tightening. The answer is probably a compromise between Germany's call for strict austerity and increased spending to stimulate growth – but it appears austerity is becoming a four-letter word in Europe.

This reality created a volatile environment for investors this week. Global equity indices suffered some of their worst losses of 2012 this week. Meanwhile, US Treasuries benefitted from the increased demand for quality assets and investors' shaken confidence. Municipals moved lower in yield in sympathy with their taxable counterparts, improving roughly 5bps in the AAA 10yr range. Muni supply already appeared manageable based solely on the limited issuance versus the high levels of anticipated reinvestment activity. Now that the elections are inflating Euro concerns, the risk-off trade appears to be gaining momentum and driving Muni prices even higher. Lipper just reported the largest weekly inflows in to Muni bond fund flows in over two months, confirming that the immediate demand for Munis remains strong.

Next week's supply looks similar to this week's in both size and its concentration in higher yielding revenue sectors. This week's push to lower yields should only help with distribution in deals offering investors some incremental yield. We expect yet another successful week for Muni issuers looking to distribute new debt despite MMD's 30yr AAA Muni yield now sitting at an all-time low while many other parts of the curve are also approaching levels of resistance. Typically, the current absolute yields would serve as an obvious red flag – but Europe concerns and US Treasury volatility continue to overshadow Muni-specific fundamentals.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	119%
5 Year	0.76	-0.04	0.80	101%
10 Year	1.75	-0.07	1.82	95%
30 Year	3.08	-0.07	3.15	102%

### UST Rates

2 Year	0.26	0.01	0.25
5 Year	0.75	-0.03	0.78
10 Year	1.84	-0.03	1.87
30 Year	3.01	-0.06	3.07

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$5.08	\$4.18
Competitive	\$1.65	\$1.68
<b>TOTAL</b>	<b>\$6.73</b>	<b>\$5.85</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$9.18</b>	<b>\$8.38</b>
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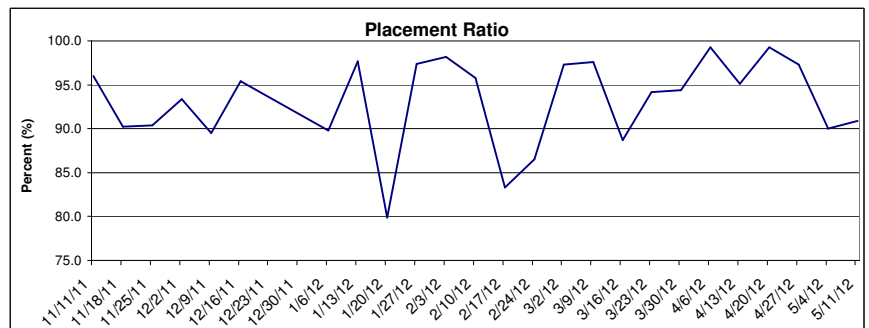
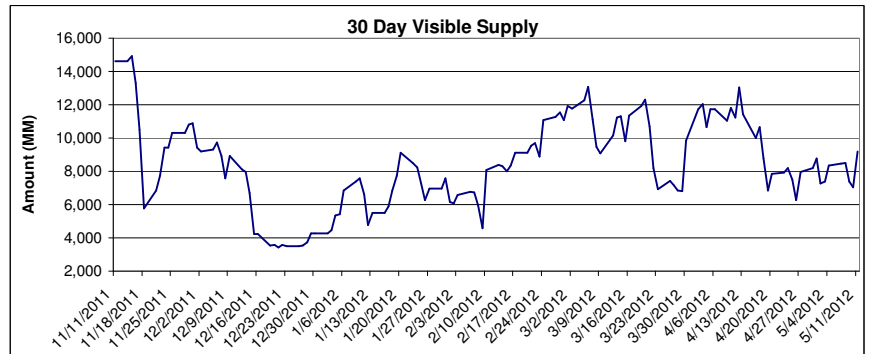
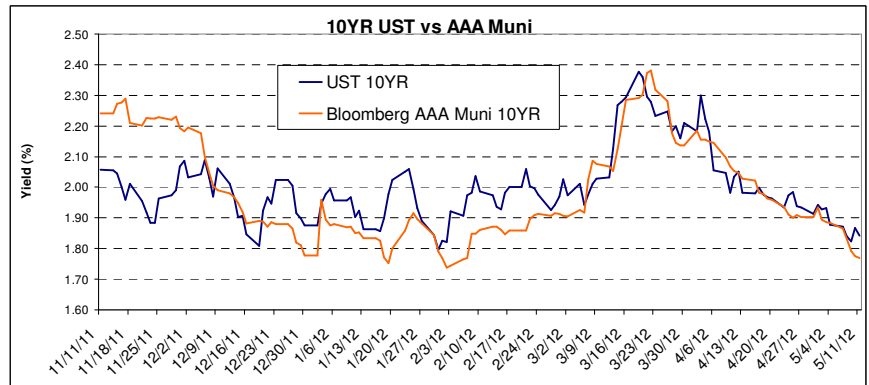
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.39</b>	<b>\$9.94</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>90.90%</b>	<b>90.00%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.71%</b>	<b>3.81%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
5/15	Consumer Price Index (MoM)	APR	0.00%	0.30%
5/15	CPI Ex Food & Energy (MoM)	APR	0.20%	0.20%
5/15	Empire Manufacturing	MAY	9.0	6.6
5/15	Advance Retail Sales	APR	0.20%	0.80%
5/16	MBA Mortgage Applications	11-May	--	1.70%
5/16	Housing Starts	APR	684K	654K
5/16	Industrial Production	APR	0.50%	0.00%
5/16	Minutes of FOMC Meeting			
5/17	Initial Jobless Claims	12-May	365K	367K
5/17	Continuing Claims	5-May	3220K	3229K
5/17	Leading Indicators	APR	0.10%	0.30%



#### **Explanation of Key Measures :**

**Weekly Municipal Supply** - The total dollar volume of municipal securities expected to be offered during the upcoming week, broken down by deal type. This helps gauge near term supply and momentum along with the 30 day visible figure.

**30 Day Visible Supply** - The total dollar volume of municipal securities expected to be offered over the next 30 days. The visible supply, which is compiled and published by The Bond Buyer, indicates the near-term activity in the municipal market.

**Bloomberg PICK Offerings** - The total dollar amount of offerings listed on Bloomberg's dealer offerings system. The figure helps gauge secondary supply in the market.

**Placement Ratio** - The amount of bonds sold by underwriting syndicates each week as a percentage of the amount issued that week by issuers selling \$1,000,000 par value or more of securities. The ratio published by The Bond Buyer, helps gauge the demand for municipal bonds in the marketplace.

**Bond Buyer 20 G.O. Index** - Index published weekly representing the average yield of 20 G.O. bonds with 20 year maturities, rated AA2 by Moody's.

**Sources:** Weekly municipal supply figures, and municipal rates are produced by Thompson Reuter (Municipal Market Data). 30 day visible figures, and the placement ratio are obtained through The MuniCenter, and produced by The Bond Buyer. The 20 G.O. index yield is obtained through Bloomberg, and produced by The Bond Buyer. Pick offerings par value, UST supply, economic releases, and UST rates are obtained through Bloomberg Professional Service. Information obtained from these sources is believed to be reliable but is not guaranteed.

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