

Trading Desk Commentary

This week was all about anticipation and speculation for US Treasuries, which spent the first four days trying to decipher what Fed Chairman Bernanke would or would not reveal in his Friday morning speech in Jackson Hole. Two years ago, Bernanke used this same venue to lay the groundwork for QE2, a move many believed he would utilize again for a potential QE3. US Treasuries rallied for most of the week, with participants betting that Bernanke would at least drop a few hints of potential stimulus measures and their timing. We believed that investors hoping for a big reveal would be disappointed and that the Fed would remain non-committal. As expected, Bernanke pointed to all of the arrows still remaining in his quiver but did not unveil any concrete details. Still, investors were somewhat satisfied that the Fed is still open to stimulus, especially in the equity markets where the DOW quickly jumped up over 100 points this morning. As we have mentioned in our blog, we believe that the lack of scary headlines emerging from the Eurozone (is there any other kind of Euro news?) and mediocre US activity has relaxed the Fed's trigger finger. However, as the US election continues to heat up and Europe refocuses on its debt issues, we believe the Fed will start to feel more pressure and show investors more of their hand.

On the Municipal front, tax-exempts were pulled along by the strength in the US Treasury market but did not get much going on their own. This week's supply was extremely light and next week looks to be more of the same (~\$2bln). When visible supply falls to these levels, Munis tend to move with US Treasuries until supply/activity re-emerges to establish a more independent tone. Activity was so light on Friday (due to the Labor Day vacation) that Munis struggled to benefit from the US Treasury rally. But, once we move beyond the holiday lull, Munis have a lot of factors in their favor: 1) Muni-to-Treasury ratios have been creeping higher in recent trading sessions back to +110% in the 10-year range; 2) new supply looks very subdued, particularly in the very near-term; 3) plenty of macro uncertainty is still lurking to support demand in safe haven assets; 4) Muni bond fund inflows remain very strong (over \$600mln this week, according to Lipper). We remain confident in our longer duration biases across our strategies, from Muni to Taxable to ETFs. September is always an interesting month in the markets – summer draws to an end, kids go back to school, and vacations turn into a distant memory. This one should be no different. We hope everyone has a safe and fun-filled Labor Day.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	132%
5 Year	0.69	-0.01	0.70	115%
10 Year	1.74	-0.05	1.79	112%
30 Year	2.89	-0.04	2.93	108%

UST Rates

2 Year	0.22	-0.05	0.27
5 Year	0.60	-0.12	0.72
10 Year	1.56	-0.11	1.67
30 Year	2.68	-0.12	2.80

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$1.38	\$1.27
Competitive	\$0.51	\$0.32
TOTAL	\$1.89	\$1.59

Municipal 30 Day Visible Supply (\$ Bln)	\$3.64	\$2.92
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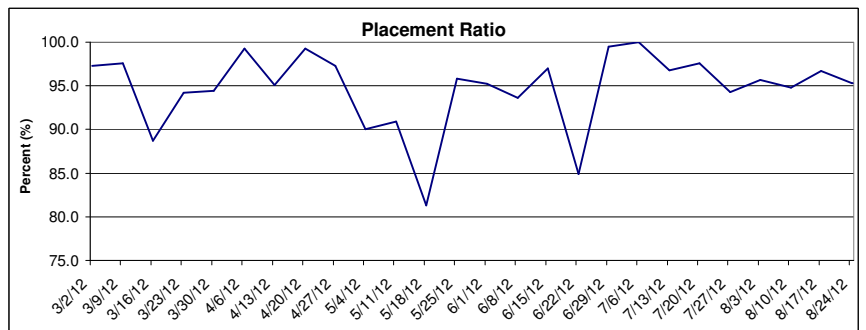
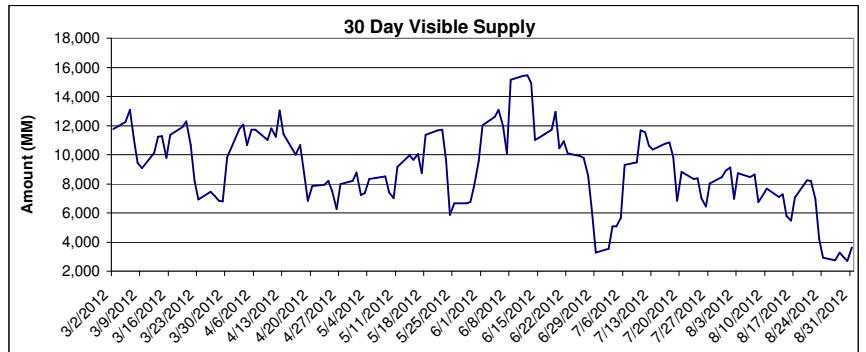
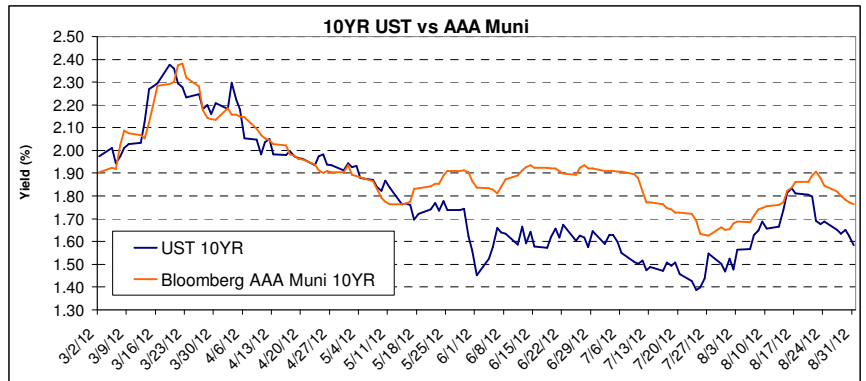
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.00	\$13.26
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Muni Placement Ratio (New Issues)	n/a	95.3%
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Bond Buyer 20 Municipal G.O. Index	3.72%	3.76%
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Select Economic Releases

Date	Event	Period	Survey	Prior
9/4	ISM Manufacturing	Aug	50.0	49.8
9/5	MBA Mortgage Applications	31-Aug	--	-4.3%
9/6	ADP Employment Change	Aug	140K	163K
9/6	Initial Jobless Claims	1-Sep	370K	374K
9/6	Continuing Claims	25-Aug	3315K	3316K
9/7	Change in Nonfarm Payrolls	Aug	125K	163K
9/7	Unemployment Rate	Aug	8.3%	8.3%



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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