

Trading Desk Commentary

It's not what investors know that seems to be driving US markets, but rather what they do not. The thick cloud of uncertainty hovering over participants is driving much of what we are observing in recent trading behavior. At the forefront are US equities which finished up one of their toughest weeks in several months, with the Dow giving up roughly 300 points. Corporate earnings season started strongly last week; however, this week was flooded by big names revealing substantial misses to their earnings forecasts. Though the souring earnings picture provided one of the week's more tangible drivers, the fear surrounding the Euro crisis continues to impair an equity turnaround and is keeping US Treasury yields at suppressed levels. It is the questions about Europe's next six months that are plaguing investors. Will Spain be granted access to the bailout funds that its banking system so sorely needs? Will Greece be able to meet the European Central Bank's austerity requirements so that they too are eligible for support? But, we need not look across the pond for uncertainty. The US presidential race appears to be a dead heat and will most likely come down to the wire. This has left investors in limbo given the stark differences in each candidate's economic platforms and vision for restoring domestic growth. Furthermore, Washington has put forth zero proposals for addressing the oncoming fiscal cliff. Will Congress come to a meaningful agreement, provide yet another short-term fix and "kick the can down the road," or let the US go over the cliff? Should Washington not create a fiscal cliff solution, enacting the painful \$500bln in spending cuts, we believe the market will react very negatively. To us, it remains staggering that American leadership possesses the gall for this kind of brinkmanship and political posturing. At any rate, so many questions remain and are hampering markets as much as any material influences in existence.

Municipals are far from immune to the uncertainty. The various proposals on the table that threaten the Muni tax exemption are likely why the Muni-to-Treasury ratio remains +100% for most of the curve. Furthermore, the global uncertainty pushing the haven trade (UST's) is driving Muni yields down by association. Muni fund flows have continued to pour in despite very low yields. Until investors find some clarity it appears they will choose safety over boosting income. This bodes well for next week's \$5bln Muni calendar, \$2.6bln of which will come in a New Jersey State Transportation loan concentrated in one 2013 maturity. Our constructive outlook in the debt market extends into next week. Until participants can fill in the void of uncertainty, we believe they will hesitate to chase riskier assets to the benefit of alternative such as US Munis.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	100%
5 Year	0.67	0.00	0.67	88%
10 Year	1.73	-0.01	1.74	99%
30 Year	2.83	-0.03	2.86	97%
UST Rates				
2 Year	0.30	0.01	0.29	
5 Year	0.76	0.01	0.75	
10 Year	1.75	-0.02	1.77	
30 Year	2.92	-0.01	2.93	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$4.60	\$5.92
Competitive	\$1.28	\$1.71
TOTAL	\$5.88	\$7.63

Municipal 30 Day Visible Supply (\$ Bln)	\$8.83	\$9.07
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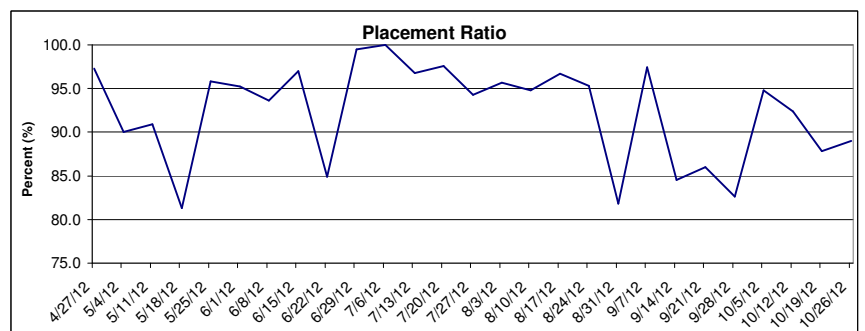
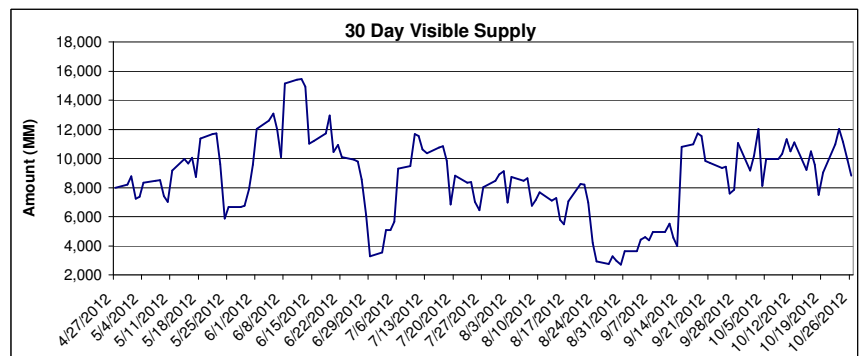
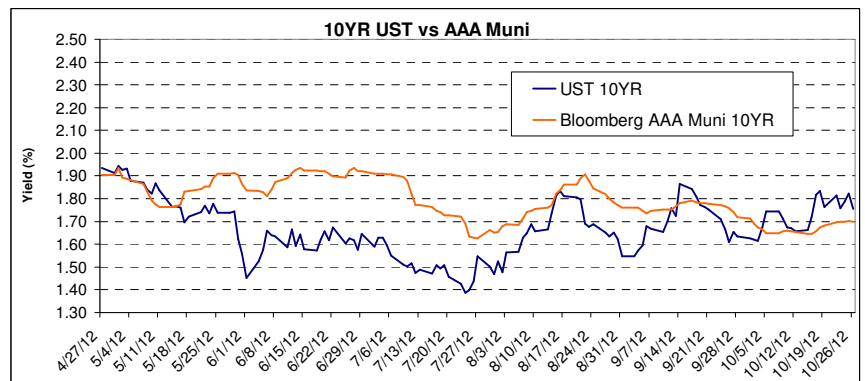
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.91	\$12.55
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Muni Placement Ratio (New Issues)	89.0%	87.8%
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Bond Buyer 20 Municipal G.O. Index	3.68%	3.68%
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Select Economic Releases

Date	Event	Period	Survey	Prior
10/29	Personal Income	Sep	0.4%	0.1%
10/29	Personal Spending	Sep	0.6%	0.5%
10/30	Consumer Confidence	Oct	72.5	70.3
10/31	MBA Mortgage Applications	26-Oct	--	-12.00%
11/1	ADP Employment Change	Oct	135.0K	162.0K
11/1	Initial Jobless Claims	27-Oct	370K	369K
11/1	Continuing Claims	20-Oct	3252K	3254K
11/1	ISM Manufacturing	Oct	51.1	51.5
11/2	Change in Nonfarm Payrolls	Oct	124K	114K
11/2	Unemployment Rate	Oct	7.9%	7.8%
11/2	Factory Orders	Sep	4.5%	-5.2%



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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