

Trading Desk Commentary

Two consecutive weeks of holiday-interrupted trading activity left Muni participants in limbo over the last few sessions. For the most part, issuers have taken a two-week hiatus, resulting in a desolate primary issuance calendar. But not trying to bring new debt to market this week was probably a wise decision. First, Muni trading desks still feel pretty thinly staffed with many taking advantage of the shortened week. Second, a half-hearted solution to the fiscal cliff was cobbled together at the last minute to avoid the automatic spending cuts and tax increases from going into effect, though in reality any long-term solution to this country's gluttonous spending issues has been delayed until at least March 1st. At that point, Congress plans to combine the discussion along with the already-once-postponed debt ceiling decision. Though equities responded positively to the US avoiding the doomsday scenario, participants are well aware that the can has been kicked down the road yet again (though not very far) and what may well become an all-out brawl is now scheduled for Capitol Hill in just two month's time. This fiscal cliff recap is a long-winded way of saying that investors still lack the clarity they need for informed long-term investment decisions, despite the cliff deadline having now come and gone. Another drawn-out debate still lies ahead for our Congressional leaders, who continue to show a dangerous inability (or unwillingness) to cooperate. The uncertainty is leaving many investors on the sidelines despite a good amount of year-end maturity cash that will eventually need a home.

So where do we go from here? In our view, the brief "risk on" move is a transitory reaction to the tax agreement on New Year's Day. As mind-numbing as it is to evaluate, it appears that as we move in to mid and late February, Congress' negotiations will again move to the forefront. We expect more brinkmanship and political posturing which in recent months has sparked strong flights to quality assets. Investors may enjoy a calmer period over the next few weeks, but we believe much of the positive sentiment will be short-lived. Our view for the debt markets remains positive in predicting the next few months. Specific to Munis, the newly increased tax rate in the highest tax bracket has actually made the Muni tax exemption even more attractive for investors falling into that category, but we will be watching developments surrounding the Muni exemption as Congress tackles spending in the next go 'round. Furthermore, new Muni supply is extremely light in the near term. Less than \$3bln is expected next week. As trading floors reach full occupancy again, we expect the small supply volume to go off without a hitch. Bond Buyer's 30-day visible supply number shows an expected \$5.85bln in new debt over the next month. We expect this number to creep high later in January but for now supply looks very manageable. We remain active bidders in the secondary, especially until the primary comes back online.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.36	0.05	0.31	133%
5 Year	0.84	0.03	0.81	104%
10 Year	1.80	0.08	1.72	94%
30 Year	2.89	0.06	2.83	93%
UST Rates				
2 Year	0.27	0.02	0.25	
5 Year	0.81	0.09	0.72	
10 Year	1.91	0.20	1.71	
30 Year	3.10	0.22	2.88	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$1.72	\$0.16
Competitive	\$1.01	\$0.00
TOTAL	\$2.73	\$0.16

Municipal 30 Day Visible Supply (\$ Bln)	\$5.85	\$3.85
---	---------------	---------------

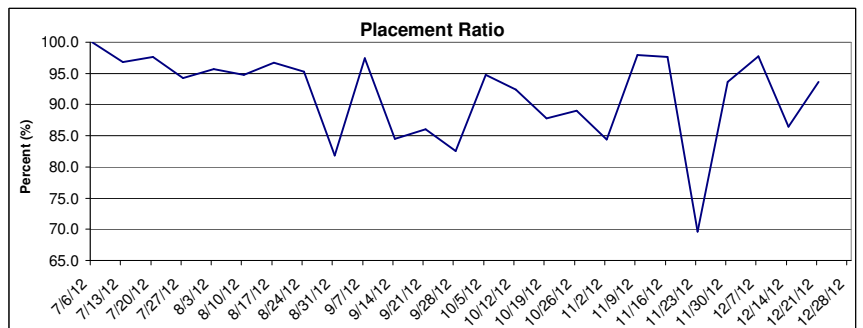
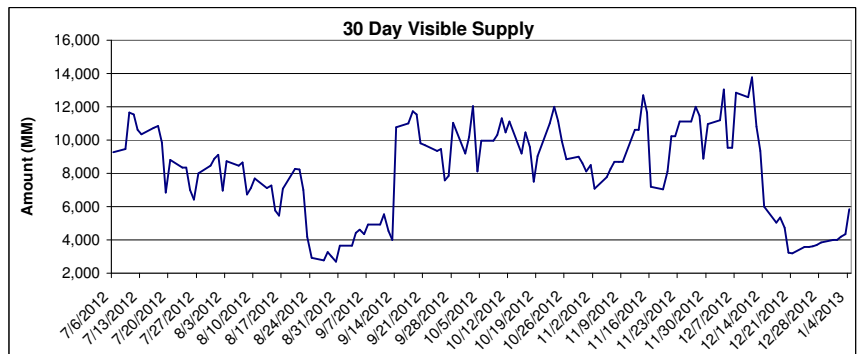
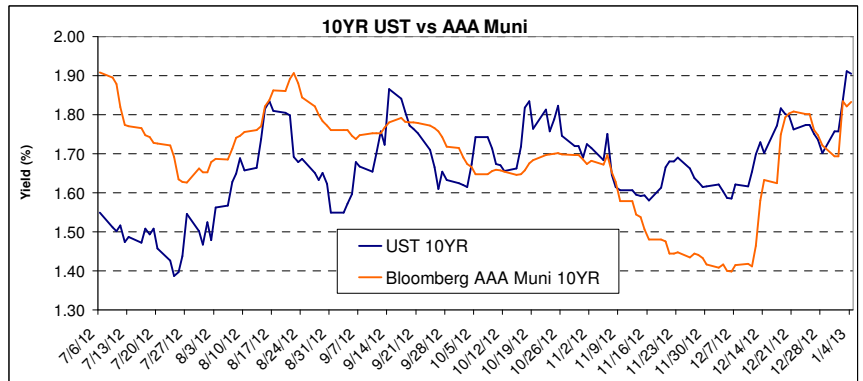
Bloomberg Muni PICK Offerings (\$ Bln)	\$10.75	\$9.97
---	----------------	---------------

Muni Placement Ratio (New Issues)	n/a	n/a
--	------------	------------

Bond Buyer 20 Municipal G.O. Index	3.68%	3.58%
---	--------------	--------------

Select Economic Releases

Date	Event	Period	Survey	Prior
1/9	MBA Mortgage Applications	4-Jan	--	-10.4%
1/10	Initial Jobless Claims	5-Jan	365K	372K
1/10	Continuing Claims	29-Dec	3235K	3245K
1/10	Wholesale Inventories	Nov	0.3%	0.6%
1/11	Import Price Index (MoM)	Dec	0.1%	-0.9%
1/11	Trade Balance	Nov	-\$41.2B	-\$42.2B



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.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.