

Trading Desk Commentary

Before the sun came up this morning on the east coast, the US equity futures' skid had already commenced alongside a strong US Treasury advance, portraying a risk-averse participant pool heading into week's end. A soft ISM Manufacturing number kicked off a disappointing week for US economic releases on Monday that would be followed by a spate of negative housing, manufacturing and ADP employment numbers through Thursday. Early in the week, North Korean tensions added to the pressure on equities and left markets feeling on edge. By Friday morning, whispers suggested that the new Nonfarm Payrolls number was poised to miss its mark. The NFP data came in well below expectations and the strong demand in US Treasuries turned into an all out buying spree. Workforce participation data showed that it had reached its lowest level since the late 1970's, actually pushing the Unemployment Rate down a tick to 7.6% (which removes those that are not actively seeking employment from the calculation). Roughly 500,000 Americans either stopped working or halted their search for new work in the month of March – not a healthy way to achieve a drop in the Unemployment Rate. Based on the market reaction following Friday's data, it looks like no one was fooled by the one-tick decline anyway. As for the North Koreans, with reports circulating of missiles loaded and ready for use and South Korea moving battleships into position off the coast, this situation warrants very close surveillance.

Municipals took their cues from a stronger US Treasury market and enjoyed its best weekly performance so far this year. The US Treasury rally over the past few weeks (largely driven by European concerns) created some very attractive Muni-to-Treasury ratios, as Munis slightly lagged the 35-basis point (0.35%) move to lower yields. That set up this week's Muni outperformance, which saw the 10-year AAA Muni benchmark yield (Municipal Market Data) fall 0.20% versus the 10-year US Treasury bond's 0.16%. Demand appeared very strong all week, based on the successes of the week's new issuance. Dealers were able to clean up a \$800mln (A2/A-/A) State of Illinois general obligation loan and an almost-\$1bln (Aa2/AA/AA) State of Pennsylvania general obligation deal by Friday. This is notable given the very different locations that each issuer falls on the credit spectrum. Illinois continues to struggle with its pension obligations and is now the lowest-rated state in the US according to the major US ratings agencies. Illinois currently offers between 125-150 basis points of additional yield over the MMD AAA benchmark, feeding directly into the ongoing appetite for yield. On the other end of the spectrum, the State of Pennsylvania is viewed as a high-quality, lower yielding state that currently only offers only 20-25 basis points over the benchmark scale. The fact that both of these deals went away in a relatively orderly fashion speaks to the broad-based demand currently in Muniland. On another note, last week we discussed the effects of Puerto Rico's downgrades and the pressure the Commonwealth's credit issues can apply to the entire Muni market. This week, it appears Puerto Rican legislators took action and enacted some important pension reforms that will force the territory to make gradual but mandatory annual appropriations to their pension fund, currently only 6% funded based on standard actuarial measurements. S&P responded by calling the vote a "credit positive" and relieved some of the anxiety over Puerto Rico's downgrades (which now sit only one notch above junk). We still view Puerto Rico as unattractive on a risk-adjusted basis – but at least they were listening to the public's concerns. We expect over \$9.5bln in new supply next week and the Bond Buyer 30-day visible supply number jumped over \$12bln with the addition of a \$2bln State of California deal now slated for next week. If tax-exempts are to hang on to this week's advances, it will have to do so with the heaviest supply so far this year.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	-0.02	0.31	126%
5 Year	0.75	-0.09	0.84	110%
10 Year	1.71	-0.20	1.91	101%
30 Year	2.93	-0.16	3.09	102%
UST Rates				
2 Year	0.23	-0.01	0.24	
5 Year	0.68	-0.09	0.77	
10 Year	1.70	-0.16	1.86	
30 Year	2.87	-0.23	3.10	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$7.79	\$2.71
Competitive	\$1.93	\$2.62
TOTAL	\$9.72	\$5.33

Municipal 30 Day Visible Supply (\$ Bln)	\$12.28	\$7.31
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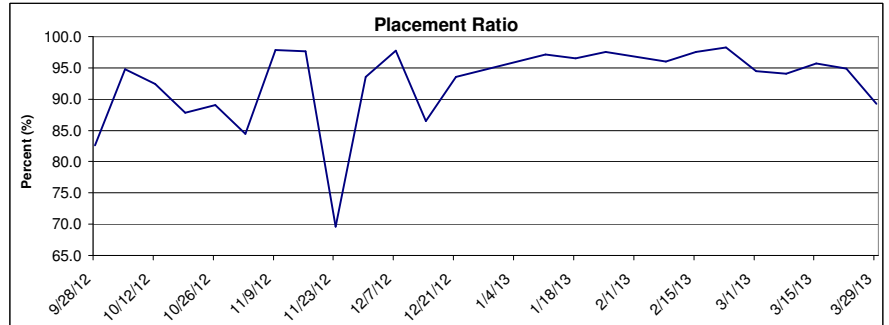
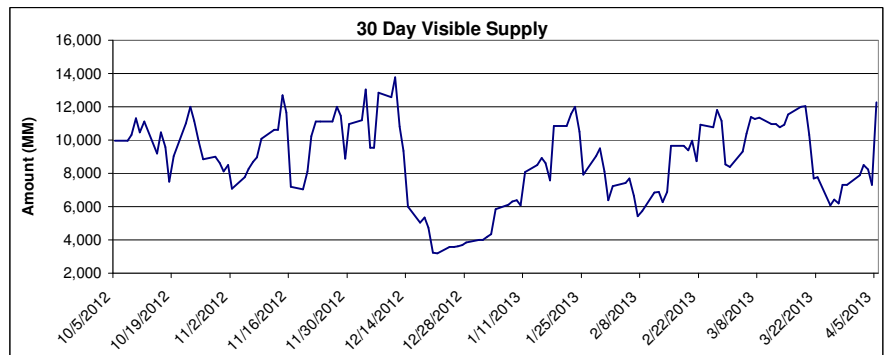
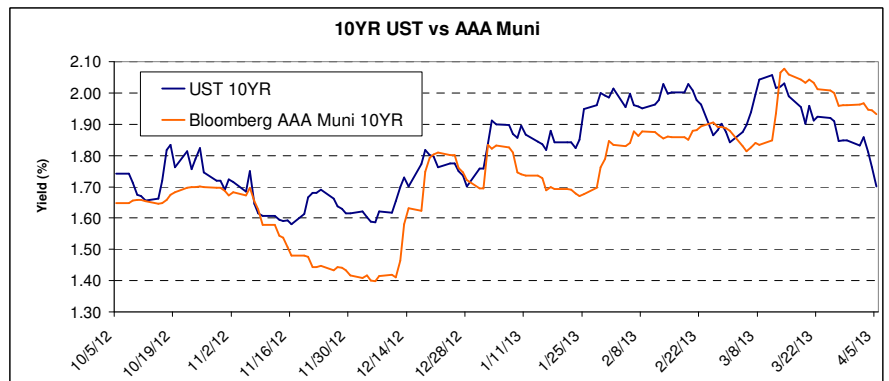
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.75	\$16.24
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Muni Placement Ratio (New Issues)	n/a	89.3%
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Bond Buyer 20 Municipal G.O. Index	3.96%	3.99%
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Select Economic Releases

Date	Event	Period	Survey	Prior
4/10	MBA Mortgage Applications	5-Apr	--	-4.0%
4/10	Fed Releases Minutes			
4/11	Import Price Index (MoM)	Mar	-0.5%	1.1%
4/11	Initial Jobless Claims	6-Apr	360K	385K
4/11	Continuing Claims	30-Mar	--	3063K
4/12	Advance Retail Sales	Mar	0.0%	1.1%
4/12	Producer Price Index (MoM)	Mar	-0.1%	0.7%
4/12	U. of Michigan Confidence	Apr P	78.3	78.6



Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	.85 YRS to 1.85 YRS	0 YRS to 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	1.30 YRS to 2.30 YRS	0 YRS to 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	4.00 YRS to 5.00 YRS	0 YRS to 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	3.50 YRS to 4.50 YRS	0 YRS to 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	2.50 YRS to 7.50 YRS		Slight Overweight to Cal. and HY Sector
Core Plus ETF	2.35 YRS to 7.10 YRS		Slight Overweight to Corporate Sectors
Tactical Opportunity ETF	2.45 YRS to 7.30 YRS		Overweight Taxables to Munis, Slight HY Bias

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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