

Trading Desk Commentary

US Treasuries' round trip this week provided a mixed setting for Municipal trading, which had its own challenges to address as well. Mid-week, the release of the FOMC's minutes from its most recent session revealed that support may be mounting for halting the Fed's current quantitative easing program by year-end. The quick reaction pushed US Treasury yields to their highest point of the week; however, the realization that the minutes dated back to before the terrible March employment report kept yields in check. Then today, disappointing retail sales numbers sparked a strong bid in the Treasury space and brought yields back down near this week's starting point. Furthermore, the House's quick dismissal of President Obama's newest budget proposal gave some participants pause but was really just more of the same. Both parties continue to play "chicken" with each other, hoping that the other side will be the first to flinch on either taxes or entitlement reform. It appears "compromise" remains elusive in DC.

Meanwhile, Muni participants were navigating through the most weekly supply they had seen since the middle of last year. Coming into the week there was concern surrounding bidders' ability to digest almost \$10bln of new issuance in five trading days. Furthermore, a steady stream of outflows has plagued the Muni bond fund universe for the past several weeks – largely driven by the recent upward sprint in equities and the negative seasonality of fund flows in the week's approaching Tax Day. In other words, Munis seemed to have the cards stacked against them. However, as the week's new loans came and went with adequate-to-strong receptions; dealers were able to slowly grind through the vast majority of the issuance. The \$2bln (A1/A-) State of California general obligation dominated the new supply calendar as well as investors' attention, who were using the deal to gauge current demand. Wednesday's retail order period did exceptionally well, grinding through almost half of the deal prior to institutional investors getting their hands on it. By the end of the institutional order period, dealers were only forced to provide minor concessions to get the mammoth deal put away. The remaining \$8bln of the week's total, was comprised of a wide variety of issuer-types and sectors and fared well in aggregate. The secondary market, on the other hand, was left out in the cold, with activity feeling very light and creating somewhat of a drag on Muni performance. Munis lagged the late week US Treasury rally, which means Muni-to-Treasury ratios remain at historically wide levels (+100% across the curve). This should help the Muni market attack next week's healthy supply, whose \$8bln total is too large to dismiss. Still, Muni bidders appear committed to supporting the supply-heavy market. Next week, CPI and housing numbers should provide some of the tone in US Treasuries and therefore Munis by association. Next week's supply looks to be spread around geographically and from a sector standpoint, typically a net positive for distribution. In recent weeks we have remained active buyers in both the primary and secondary markets, which has paid off in the recent debt market rally. We will continue our selective purchases in yield oriented names to combat the rate environment while positioning ourselves consistently with our constructive outlook in the bond markets.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	126%
5 Year	0.76	0.01	0.75	110%
10 Year	1.72	0.01	1.71	100%
30 Year	2.94	0.01	2.93	101%
UST Rates				
2 Year	0.23	0.00	0.23	
5 Year	0.69	0.01	0.68	
10 Year	1.72	0.02	1.70	
30 Year	2.92	0.05	2.87	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$7.26	\$7.79
Competitive	\$0.76	\$1.93
TOTAL	\$8.02	\$9.72

Municipal 30 Day Visible Supply (\$ Bln)	\$10.24	\$12.28
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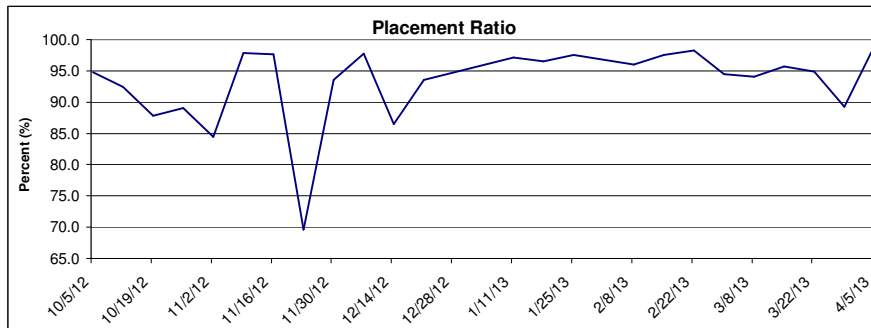
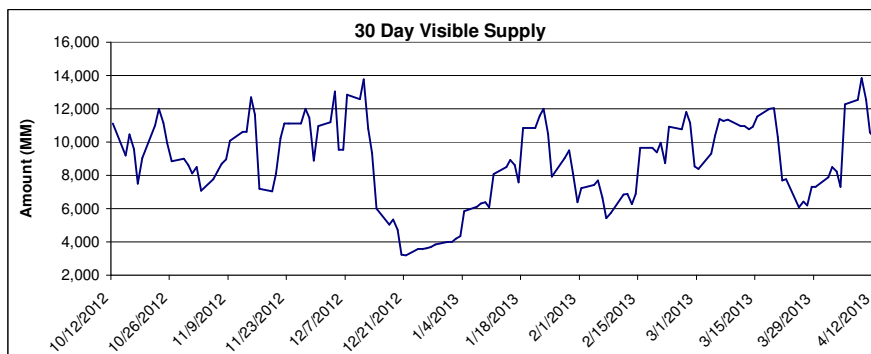
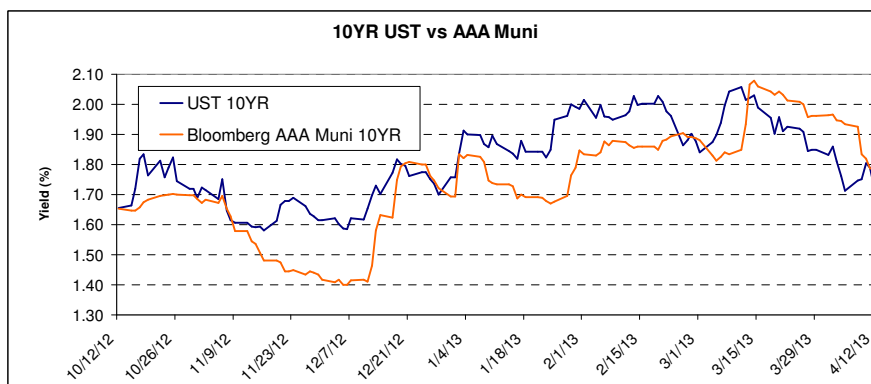
Bloomberg Muni PICK Offerings (\$ Bln)	\$17.39	\$11.75
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Muni Placement Ratio (New Issues)	n/a	99.0%
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Bond Buyer 20 Municipal G.O. Index	3.93%	3.96%
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Select Economic Releases

Date	Event	Period	Survey	Prior
4/15	Empire Manufacturing	Apr	7.0	9.2
4/16	Consumer Price Index (MoM)	Mar	0.0%	0.7%
4/16	Housing Starts	Mar	930K	917K
4/16	Building Permits	Mar	942K	946K
4/16	Industrial Production	Mar	0.2%	0.7%
4/17	MBA Mortgage Applications	12-Apr	--	4.5%
4/17	U.S. Fed Beige Book			
4/18	Initial Jobless Claims	13-Apr	350K	346K
4/18	Continuing Claims	6-Apr	3071K	3079K
4/18	Leading Indicators	Mar	0.1%	0.5%



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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