

Trading Desk Commentary

The majority of US market activity was driven by Fed Chairman Bernanke's congressional testimony on Wednesday, which was short on revelations but did give a slight glimpse behind the Fed's curtain. The testimony provided enough substance in traders' minds to act upon based on the movement we observed in US equities. Bernanke's comments pushed equities off for three consecutive days for the first time in over a month totaling a 150-point skid for the Dow. US Treasuries rallied to close out the week after the US Treasury 10-year yield broke through 2.00% for the first time since mid-March. To us, there were a few interesting takeaways from Bernanke's visit to Capitol Hill, though most of it was telegraphed long before the testimony. For one, slowing down asset purchases is firmly on the table in 2013. Bernanke appears cautious of over-committing to a timetable, but he has consistently planted the seed for ramping down QE in the foreseeable future (or within the "next few meetings," as he puts it). Is Bernanke trying to soften the blow for the inevitable day that the Fed tightens its belt? Presumably, when that day comes to pass, no one will be happy. The fixed income space will lose its largest participant while equities already cringe at the thought of a tighter stance from the Fed, which is evident any time an FOMC official mentions the dreaded "tapering" of Fed accommodation. Bernanke also managed a few digs at Congress, warning them that several fiscal moves on their part are making it tough for the Fed to encourage growth – namely, higher taxes and sequestration. It feels as though the Fed is in a transition period, taking stock of its current positioning and starting to take the market's temperature about making a few changes. If Bernanke's language continues to strengthen, the back half of 2013 could be a bumpy ride.

Muniland was fairly quiet for the most part, with limited new issuance to sift through and volatility in US Treasuries seemingly forcing many participants into a holding pattern. Those dealers bringing the week's largest deals to market reported some cheapening in order to find an audience. The \$950mln (Aa2/AA) New York City general obligation loan provided a test for high-grade, NY appetite which required higher yields before the end of its order period and portrayed hesitancy from bidders. This was partially due to the upcoming 3-day Memorial Day weekend, which typically has the market downshifting by mid-week in preparation for the holiday. Next week, only \$4bln of new debt will price in the four-day week, contributing to the very manageable \$6bln 30-day visible issuance reported by Bond Buyer. According to Lipper, small inflows continued into Muni bonds funds this past week showing a little follow-through to last week's additional cash moving into the Municipal fund sector. Munis will have to look to US Treasuries for price guidance much like we saw over the past five trading sessions. This leaves Munis exposed to some additional volatility based on broader macro sentiment and activity. Tax-exempts could receive some assistance from the June reinvestment period if participants can fully re-engage the asset class, especially if supply remains at the currently subdued levels. However, a lot of that will depend upon how much of the cash will be reemployed in riskier assets. Supply should show some signs of life though as we move beyond the Memorial Day disruption; however, our near-term view remains constructive in Muniland. We hope everyone has a safe and happy Memorial Day break as we remember those members of the US Armed Forces who gave everything protecting us and this great country.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.01	0.28	116%
5 Year	0.84	0.03	0.81	94%
10 Year	1.90	0.08	1.82	95%
30 Year	3.08	0.11	2.97	97%
UST Rates				
2 Year	0.25	0.01	0.24	
5 Year	0.89	0.06	0.83	
10 Year	2.00	0.05	1.95	
30 Year	3.17	0.01	3.16	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.84	\$4.14
Competitive	\$0.74	\$0.97
TOTAL	\$3.58	\$5.11

Municipal 30 Day Visible Supply (\$ Bln)	\$6.17	\$7.11
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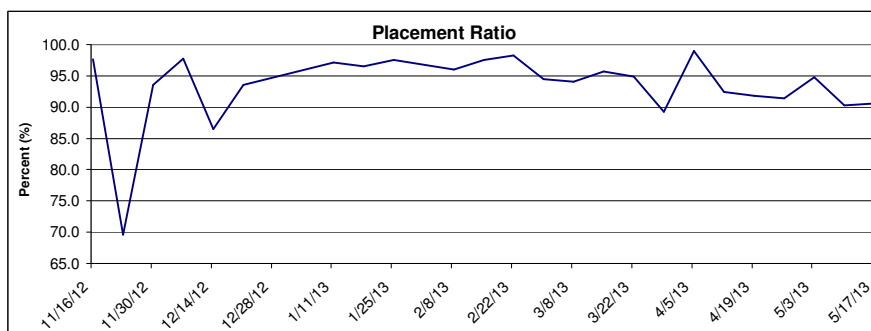
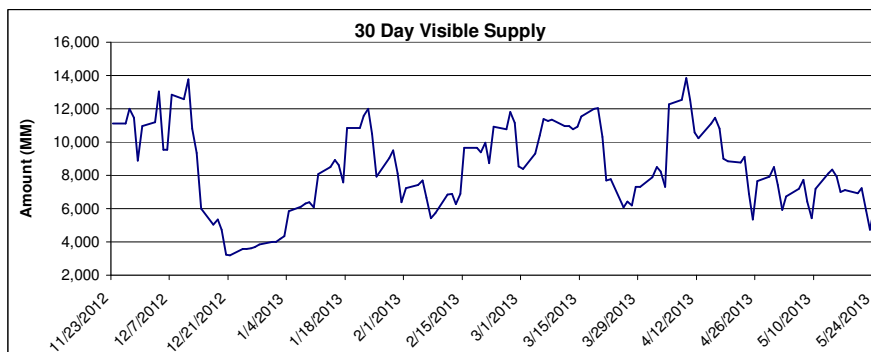
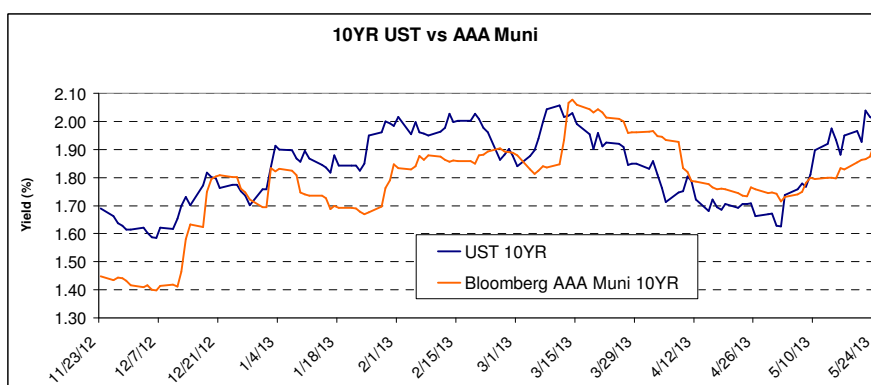
Bloomberg Muni PICK Offerings (\$ Bln)	\$14.20	\$12.30
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Muni Placement Ratio (New Issues)	n/a	90.6%
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Bond Buyer 20 Municipal G.O. Index	3.70%	3.61%
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Select Economic Releases

Date	Event	Period	Survey	Prior
5/28	Consumer Confidence	May	71.0	68.1
5/29	MBA Mortgage Applications	24-May	--	-9.8%
5/30	GDP QoQ (Annualized)	1Q S	2.5%	2.5%
5/30	Core PCE QoQ	1Q S	1.2%	1.2%
5/30	Initial Jobless Claims	25-May	340K	340K
5/30	Continuing Claims	18-May	2970K	2912K
5/30	Pending Home Sales MoM	Apr	1.5%	1.5%
5/31	Personal Income	Apr	0.1%	0.2%
5/31	Personal Spending	Apr	0.0%	0.2%
5/31	Chicago Purchasing Manager	May	50.0	49.0
5/31	U. of Michigan Confidence	May F	83.7	83.7



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 Corporates and BABs
Tactical Opportunity ETF	2.45 YRS to 7.30 YRS		Overweight Munis to Taxables, Yield 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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