

Trading Desk Commentary

On the heels of last week's Lipper report that Muni bond funds lost \$1.5bln in assets, Muni funds endured yet another round of outflows, this time totaling a whopping \$1.9bln. Of course, Muni investors need not monitor the "fast money" for a real-time indication on current Muni sentiment. Municipal Market Data's 10 Year AAA Muni benchmark yield, reflecting movement within the traditional bond market, have risen sharply so far this month (14 basis points, 0.14%) and even more dramatically (56 basis points, 0.56%) if one looks back to the start of May. You have to go back to last February through mid-March to find a comparable move to higher Muni yields over a similar time frame. The recent volatility in the US Treasury market had done little to help put the brakes on Muniland's recent skid until today when US Treasuries rallied for a second consecutive day and provided Munis with a more pleasant tone of their own. Today was the first day since June 3rd that Muni prices actually improved in spots – before that you need to go back to May 15th. Needless to say, Munis are in the midst of a significant slump. Muni bidders have been afraid to step in and catch a falling knife, pushing investors to the sidelines and reducing market liquidity. The success of recent new issuance has been on a name-by-name, loan-by-loan basis, with deals lacking strong name recognition languishing as a result of participants' unwillingness to take any chances while Munis struggle to find their footing. Furthermore, having been in an historic low rate environment for essentially a year, credit spreads had compressed to eye-popping levels as investors devoured any kind of yield they could get their hands on. As a result, issuers were offering much lower yields on lesser-rated debt than in prior years and many AA-to-BBB names were trading at all-time highs relative to AAA tax-exempts. Now we are seeing the flip side of that coin, with spreads quickly increasing due to concerns over Munis' intermediate term outlook and due to the fact that now investors can find the highest yields in high-quality debt in over a year. Fearful of the spread pendulum swinging the other way, high-yield Muni funds and traditional debt has been among the hardest hit by outflows and selling pressure.

Traditionally, June is a bright spot in Muni performance given its history of strong reinvestment trends. Thus far, June 2013 is bucking the trend, but it doesn't appear that the available June reinvestment monies are pouring into equities based on their recent stall. Instead, it feels more like everyone is looking around, scratching their heads. On a historical basis, stocks and bonds both look very expensive and the guessing game continues with how and when the Fed will ease back its stimulus initiatives. Thankfully, next week's Muni supply appears more manageable at just over \$6bln and is spread out over many \$100-750mln loans as opposed to one large deal that could single-handedly dictate the tone. A firmer US Treasury market would go a long way towards discovering Muni fair value and help dealers find an audience for next week's issuance. The Fed will meet next week, so look for participants to be on edge once the meeting concludes and hanging on to every word the committee uses in its release. Right now, market direction likely rests in the palm of the FOMC's hand, so hopefully it chooses its words wisely come Wednesday.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.01	0.30	115%
5 Year	1.11	0.11	1.00	108%
10 Year	2.23	0.10	2.13	105%
30 Year	3.50	0.16	3.34	106%
UST Rates				
2 Year	0.27	-0.03	0.30	
5 Year	1.03	-0.06	1.09	
10 Year	2.13	-0.03	2.16	
30 Year	3.30	-0.03	3.33	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.37	\$6.09
Competitive	\$1.03	\$1.79
TOTAL	\$6.40	\$7.88

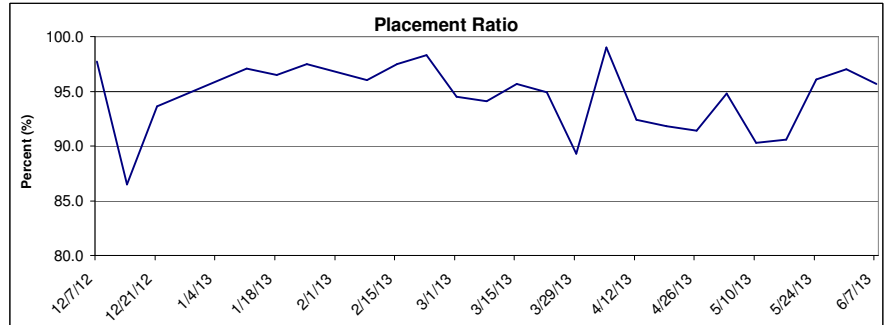
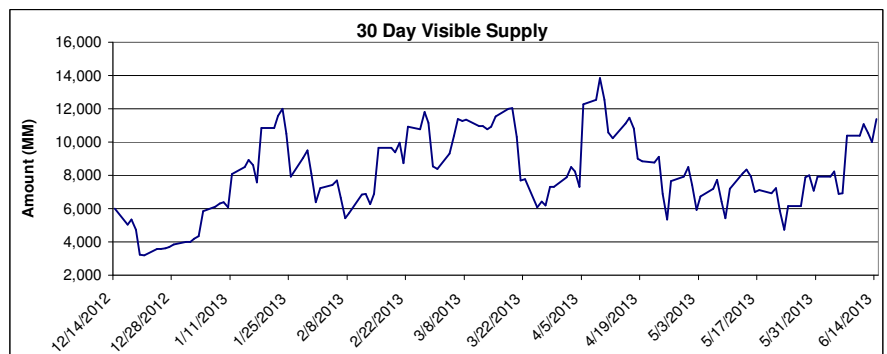
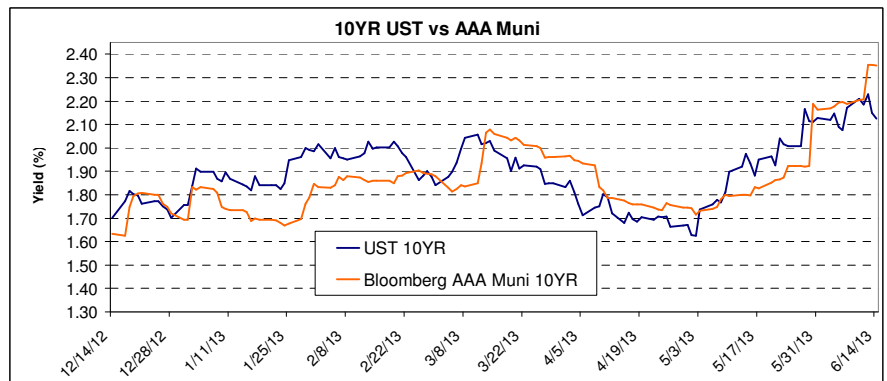
Municipal 30 Day Visible Supply (\$ Bln)	\$11.38	\$10.39
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Bloomberg Muni PICK Offerings (\$ Bln)	\$14.87	\$13.01
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Muni Placement Ratio (New Issues)	n/a	95.7%
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Bond Buyer 20 Municipal G.O. Index	4.16%	3.93%
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Date	Event	Period	Survey	Prior
6/17	Empire Manufacturing	Jun	0.0	-1.43
6/18	Consumer Price Index (MoM)	May	0.2%	-0.4%
6/18	Housing Starts	May	950K	853K
6/18	Building Permits	May	977K	1017K
6/19	MBA Mortgage Applications	14-Jun	--	5.0%
6/19	FOMC Rate Decision	19-Jun	0.25%	0.25%
6/20	Initial Jobless Claims	15-Jun	340K	334K
6/20	Continuing Claims	8-Jun	2955K	2973K
6/20	Philadelphia Fed.	Jun	-2.0	-5.2
6/20	Existing Home Sales	May	5.00M	4.97M
6/20	Leading Indicators	May	0.2%	0.6%



Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	.85 YRS → 1.85 YRS	0 YRS → 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	1.30 YRS → 2.30 YRS	0 YRS → 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	4.00 YRS → 5.00 YRS	0 YRS → 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	3.50 YRS → 4.50 YRS	0 YRS → 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	0.00 YRS → 7.50 YRS		Slight Overweight to Cal. and HY Sector
Core Plus ETF	0.00 YRS → 7.10 YRS		Slight Overweight to Corporates and BABs
Tactical Opportunity ETF	0.00 YRS → 7.30 YRS		Slight 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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