

Trading Desk Commentary

This week found participants coping with the aftermath of two meaningful Muniland credit developments: Detroit's Chapter 9 bankruptcy filing and Moody's downgrade of Chicago from Aa3 to A3. Both events were well-telegraphed; however, each likely rattled those investors that have not been attentive to the Muni credit landscape in recent years. Detroit has traveled on a downward trajectory for several decades as the US auto industry expanded away from the Motor City, slashing the city's population and revenue collections. Questionable fiscal management only exacerbated the city's struggles, a plight shared with Chicago which has allowed its own pension obligations to spiral out of control. Chicago's large debt load and expenses have limited the city's ability to make much headway in addressing its imbalances. Moody's left Chicago on negative outlook in anticipation of a worsening pension situation, citing an expected jump in required pension payments in FY 2015. The immediate reaction earlier in the week was negative as Muni yields rose and Muni ETF prices fell, culminating in Lipper reporting last night that Muni funds saw a ninth straight week of net outflows. More than the actual losses suffered by Detroit debt holders, the direct impact on the Muni market may stem from the implications associated with the bankruptcy filing itself. Will Detroit's filing set a dangerous precedent that filing for Chapter 9 bankruptcy is a viable way to reduce debt and pension obligations? The answer could be yes but there is an important point to make. Those issuers seriously interested in how Detroit handles their budgetary crisis are likely already on shaky financial ground. With proper credit analysis and ongoing surveillance of Muni issuers, an investor can reduce the risk of being the victim of such events. Monitoring the credits we hold and digging into financial statements ahead of a potential purchase remains at the core of the work we do.

Muni activity felt somewhat light for the majority of the week until today when Muni-to-Treasury ratios and absolute yields became too attractive to ignore. Muni-to-Treasury ratios approached multi-year highs early in the week as Munis slumped relative to US Treasury trading. Furthermore, Muni supply felt very manageable this week, a sentiment that is likely to continue next week with roughly \$4.6bn new issuance on the calendar. Bond Buyers 30-day visible supply now sits below \$10bn, likely the result of the summer lulls typically seen in new debt sales. The lighter debt load comes at an opportune time given the recent volatility in the Municipal space. In our opinion, Munis continue to offer value at current levels. Though our strategy is a bit more defensive now than just two months ago, we continue to purchase bonds within our shorter duration profile. A firm US Treasury backdrop next week would help Munis hold on to today's gains. That will depend largely on a busy US economic release calendar that includes a new GDP number as well as the all-important Fed meeting. You can count on market participants turning a laser-like focus to the language in the Fed's statement, looking for clues as to how Fed tapering will (or won't) proceed this fall. We believe the bond market's hyper-sensitivity to statements and speculation further supports our current defensive posture.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.43	0.00	0.43	139%
5 Year	1.27	-0.05	1.32	93%
10 Year	2.70	0.03	2.67	105%
30 Year	4.21	0.07	4.14	116%
UST Rates				
2 Year	0.31	0.01	0.30	
5 Year	1.37	0.07	1.30	
10 Year	2.56	0.08	2.48	
30 Year	3.62	0.06	3.56	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.39	\$4.15
Competitive	\$1.30	\$1.08
TOTAL	\$4.69	\$5.23

Municipal 30 Day Visible Supply (\$ Bln)	\$9.56	\$10.17
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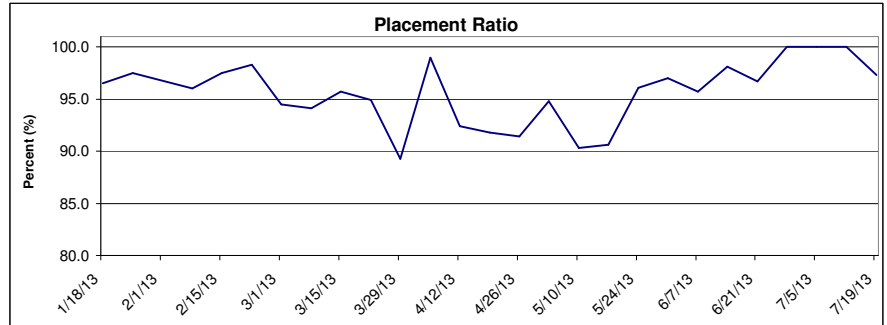
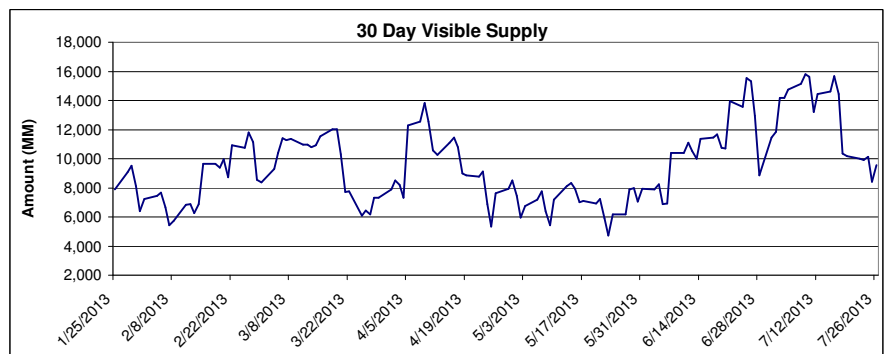
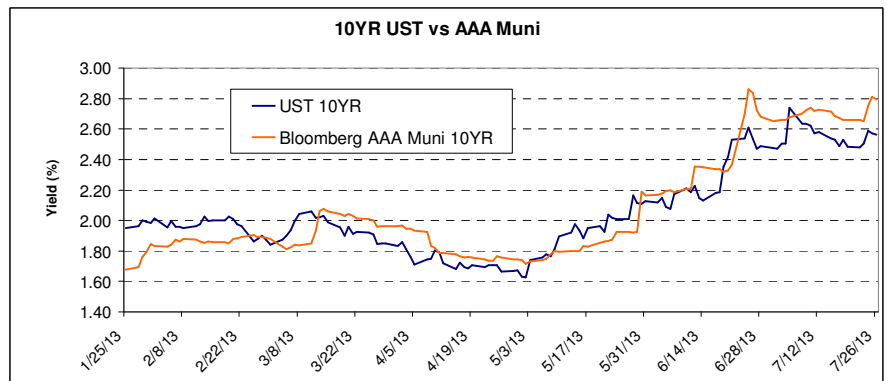
Bloomberg Muni PICK Offerings (\$ Bln)	\$17.13	\$11.72
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Muni Placement Ratio (New Issues)	n/a	97.3%
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Bond Buyer 20 Municipal G.O. Index	4.77%	4.52%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/30	Consumer Confidence Index	Jul	81.0	81.4
7/31	MBA Mortgage Applications	26-Jul	--	-1.2%
7/31	ADP Employment Change	Jul	180K	188K
7/31	GDP Annualized QoQ	2Q A	1.0%	1.8%
7/31	FOMC Rate Decision	31-Jul	0.25%	0.25%
8/1	Initial Jobless Claims	27-Jul	344K	343K
8/1	ISM Manufacturing	Jul	52.0	50.9
8/2	Change in Nonfarm Payrolls	Jul	185K	195K
8/2	Unemployment Rate	Jul	7.5%	7.6%
8/2	Personal Income	Jun	0.4%	0.5%
8/2	Personal Spending	Jun	0.5%	0.3%



Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min  Max	0 YRS  5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min  Max	0 YRS  5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min  Max	0 YRS  17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Min  Max	0 YRS  12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min  Max		Slight Overweight to CA and NY
Core Plus ETF	Min  Max		Slight Overweight to Corporates and BABs
Tactical Opportunity ETF	Min  Max		Slight Overweight Munis, Underweight Taxables

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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