Weekly Trading Desk Update

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Trading Desk Commentary

The Fed's decision last week to maintain its bond purchasing program for the immediate future and stating that there was no set timeline for any potential tapering had asset prices surging across the board. The news excited equities given the extension of the ultra accommodative era while bonds reveled in the fact that their biggest supporter would still have their back. The Fed's shockwaves were still being felt this week spurring US Treasury yields further downward (the 10-year into the 2.60's). The demand for haven assets was further propelled by the latest round of gridlock in Congress, opening up yet another threat of government shutdown in just a few days time. Congress must agree on a resolution to provide funding to federal agencies by Monday night to avoid closures; however, lawmakers' insistence on bundling in roadblocks for Obamacare and budget objections is making any type of compromise very difficult. Washington has a long weekend in store for itself if it is to have any hope of reaching an agreement by the deadline. Congress' infighting quickly pulled equities down from their all-time highs that followed the "non-taper" announcement, despite the week's reasonably strong economic data that suggests the US recovery remains on a slow but steady upward trajectory. We will be watching the developments on Capitol Hill over the weekend closely. If Congress fails to raise the debt ceiling, we would expect US Markets to face significant pain and volatility in the coming weeks. In response, we are maintaining our defensive posture for the time being. Too many factors of uncertainty over the short-term threaten stability in US markets, though we still believe that the bias over the intermediate term is for higher yields in bonds. Fed tapering is not a matter of "if," simply when. As they proved last week, the Fed and only the Fed will decide when to reduce its stimulus efforts, regardless of previous statements or what economic data supports. Rather than participate in intraday Fed speculation, we are using a slightly longer term approach. That being said, we recognize that the evolving circumstances in Washington and overseas have us evaluating our outlook on an ongoing bias.

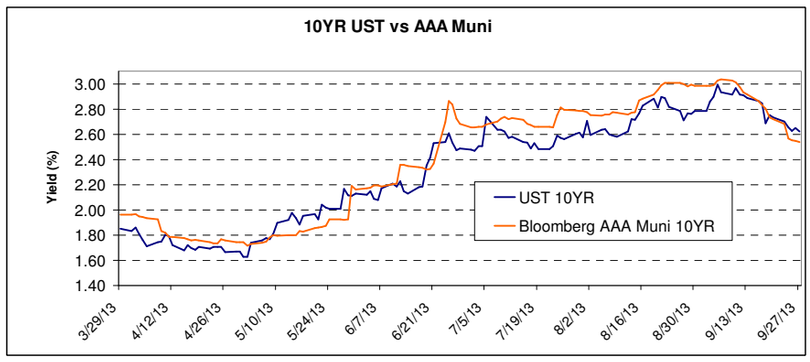
Muniland benefited from the broad move to lower rates and flight to quality, improving or remaining unchanged for each trading session. The tax-exempt sector continues to benefit from limited supply, though this positive fundamental factor was overwhelmed in recent weeks by the rate sell-off ahead of the expected taper announcement on September 18th. Even through that period of weakness, dealers were able to distribute new Muni supply with relative ease given the strong demand for new paper. Granted, some of the new issuance came at the widest spreads in recent memory due to the price volatility surrounding the deals as well as dealers' efforts to sell as much as possible to avoid carrying a large balance sheet while debt security valuations declined. A meaningful uptick in supply still appears elusive. Though visible supply has quietly crept north of $7bln, the calendar is still exceptionally light relative to historical averages. Year-to-date, issuers have brought 13% less new debt than we saw in 2012, according to Bloomberg. At this pace, 2013 will be one of the lightest years for local debt issuance over the past 10 years. This is supportive of the Muni space. Throw in the drastic reduction in Lipper's reported Muni fund outflows (though still negative) this past week, and the near-term outlook in tax-exempts is appealing. Of course, this short period of stability faces a big hurdle in the form of this weekend's debt debates. Stay tuned.

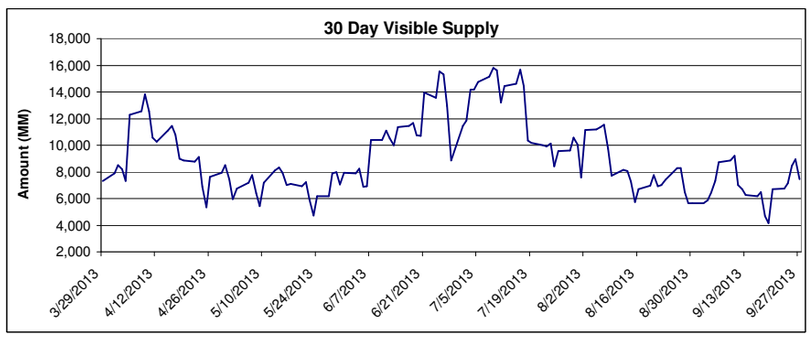
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.36	0.00	0.36	109%
5 Year	1.32	-0.03	1.35	94%
10 Year	2.54	-0.06	2.60	97%
30 Year	4.11	-0.09	4.20	112%
UST Rates				
2 Year	0.33	-0.03	0.36	
5 Year	1.40	-0.08	1.48	
10 Year	2.62	-0.12	2.74	
30 Year	3.68	-0.09	3.77	

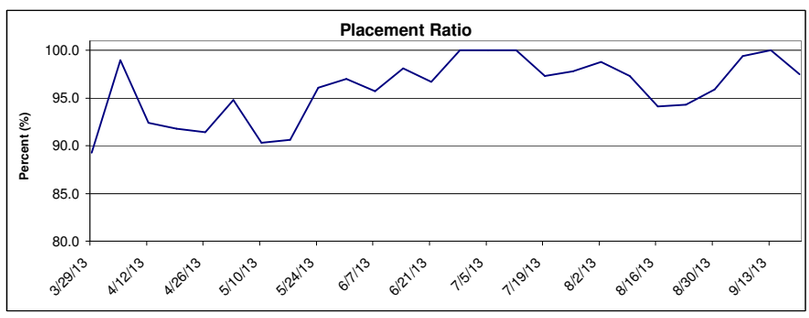
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$2.93	$3.41
Competitive	$0.52	$0.61
TOTAL	**$3.45**	**$4.02**
Municipal 30 Day Visible Supply ($ Bln)	**$7.43**	**$6.27**
Bloomberg Muni PICK Offerings ($ Bln)	**$12.95**	**$11.46**
Muni Placement Ratio (New Issues)	**n/a**	**97.5%**
Bond Buyer 20 Municipal G.O. Index	**4.53%**	**4.66%**

Select Economic Releases

Date	Event	Period	Survey	Prior
9/30	Chicago Purchasing Manager	Sep	54.0	53.0
10/1	ISM Manufacturing	Sep	55.1	55.7
10/2	MBA Mortgage Applications	27-Sep	--	5.5%
10/2	ADP Employment Change	Sep	176K	176K
10/3	Initial Jobless Claims	28-Sep	315K	305K
10/3	Factory Orders	Aug	0.3%	-2.4%
10/4	Change in Nonfarm Payrolls	Sep	180K	169K
10/4	Unemployment Rate	Sep	7.3%	7.3%







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**

Please refer to the second page for explanations of key measures, sources, and disclosure information.

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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