

## Trading Desk Commentary

Bonds moved sideways for the most part this week as leaders in Washington continued their finger-wagging antics. The partial government shutdown marches on for the fourth consecutive day, with little sign of resolution to the gridlock anytime soon. Fixed income traders seem to be in a holding pattern, waiting for progress from a dysfunctional legislature or for the other shoe to drop and indicate our government may be stymied for the foreseeable future. In the interim, bond yields appear content bouncing near their seven-week lows. The choppy environment in which we currently find ourselves is not only caused by the Capitol Hill stalemate, but also a stalemate between opposing longer-term forces. On the one hand, the bias for yields over the next 6-12 months still likely leans towards higher levels. The Fed ultimately will have to reduce its role as the economy's panacea and test the recovery's strength on its own merits. Economic data continues to point towards ongoing, stable improvement, though admittedly not as fast-paced as the Fed would like. Still, the Fed will exit at some point, and when it does, we expect pressure on bond prices. On the other hand, the current D.C. turmoil is clouding the US outlook. A broader and prolonged government shutdown could have a meaningful impact on US GDP and send an ill-timed shockwave through the system. The Fed has acknowledged as much and allowed Washington's unwillingness to compromise seep into Fed policy decisions, a whole other complication in itself. Furthermore, Italy's newest round of political unrest again shows that Europe still faces plenty of its own challenges that can threaten global economic stability. The US government and Europe developments are therefore supporting the demand for haven assets and continue to keep US Treasury yields in check in the face of inevitable Fed stimulus reduction. We characterize the current environment as one in limbo – stuck between two very different outcomes. We remain attentive and defensively positioned.

The Bond Buyer's 30-day Visible Muni supply number quietly crept over \$8bln over the course of the week. This is by no means an inordinate amount of supply for this time of year, but it is still \$1-2bln more than we have been averaging in recent weeks amidst significant debt market volatility. Issuers have been hesitant to bring new debt to a market that is demanding the highest borrowing costs for issuers in a couple of years. Part of the supply jump is a large (~\$2bln) A1/A State of California deal expected later this month, a state whose debt continues to be met with ravenous demand. Next week, we are expecting less than \$4bln in new debt, an easily digestible number especially if we can hang on to this relatively stable rate environment. We would not be surprised to see scheduled supply grow through the month of October given tax-exempts' recent rally, which has effectively lowered issuer borrowing costs. Also, if the volatility in US debt markets temporarily subsides, this may infuse more confidence in issuers that their deals will find a more receptive audience. Finally, we are lagging last year's issuance by roughly 15% which amounts to tens of billion of dollars less in available Muni paper. As a result, most of the limited supply that dealers have sold in the recent weeks and months has fared very well. We remain very selective in our buying, but there are still opportunities in the primary market to locate attractive value. Our emphasis remains on higher yielding sectors – healthcare, power, education and other various revenue sectors – limited to within the first 12 years of the maturity curve. We believe a conservative yet nimble approach is paramount in today's investing environment.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.37	0.01	0.36	114%
5 Year	1.34	0.02	1.32	95%
10 Year	2.54	0.00	2.54	95%
30 Year	4.11	0.00	4.11	110%
UST Rates				
2 Year	0.33	-0.01	0.33	
5 Year	1.41	-0.01	1.40	
10 Year	2.66	0.04	2.62	
30 Year	3.74	0.06	3.68	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$2.86	\$2.93
Competitive	\$0.72	\$0.52
<b>TOTAL</b>	<b>\$3.58</b>	<b>\$3.45</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$8.18</b>	<b>\$7.43</b>
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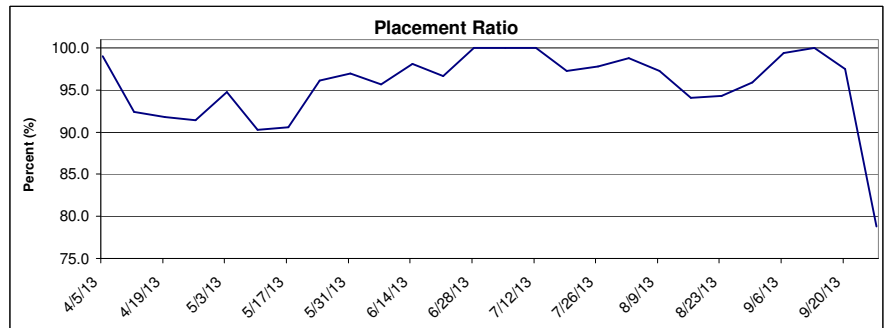
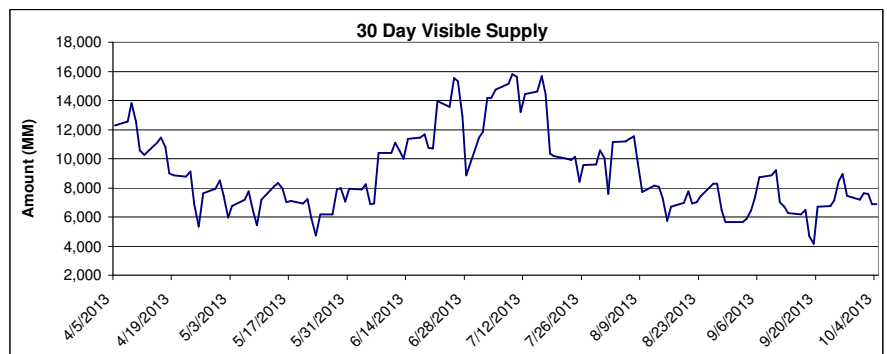
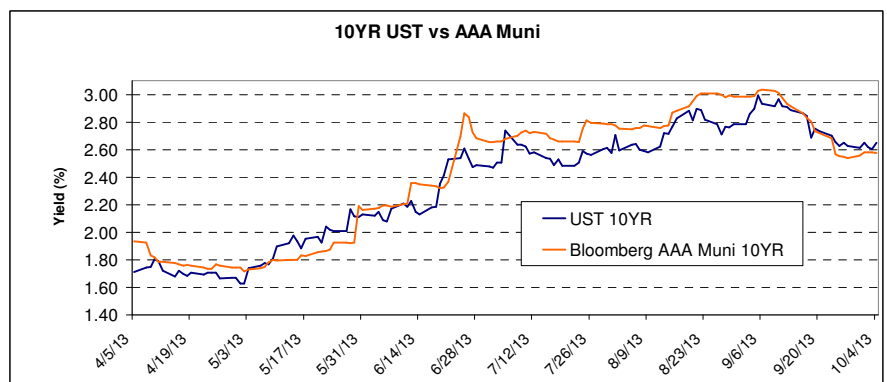
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$13.68</b>	<b>\$12.95</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>78.8%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.53%</b>	<b>4.53%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
10/7	Change in Nonfarm Payrolls	Sep	180K	169K
10/7	Unemployment Rate	Sep	7.3%	7.3%
10/7	Factory Orders	Aug	0.3%	-2.4%
10/8	Trade Balance	Aug	-\$39.5B	-\$39.1B
10/9	MBA Mortgage Applications	4-Oct	--	-0.40%
10/10	Initial Jobless Claims	5-Oct	310K	308K
10/11	Retail Sales Advance MoM	Sep	0.10%	0.20%
10/11	PPI MoM	Sep	0.2%	0.3%
10/11	Univ. of Michigan Confidence	Oct P	76.0	77.5



## 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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