

## Trading Desk Commentary

The latest debacle in Washington continues to grip traders' attentions as we inch closer to potential US default and are now in day 11 of the government shutdown. As of now, a short-term agreement appears to be in the works that would push back the default deadline roughly six weeks. Asset prices reacted positively to the mild progress, especially equities which strung together two very strong days to close out the week. Debt market participants seem to be having a tougher time digesting all of the relevant trading issues. The primary emphasis remains on the Congressional stalemate which is forcing the US to flirt with default on its debt obligations. While we still view the likelihood of a default as next to zero, watching American leadership play with the full faith and credit of the United States as a means of political leveraging is reckless. 10-Year US Treasury yields continue to chop along near 2.65%, staying in a holding pattern until a clearer path for addressing the debt ceiling emerges. Another facet to consider, President Obama officially nominated Janet Yellen to succeed Ben Bernanke as the next Fed Chairman. Yellen holds a pro-stimulus slant and has been an advocate of the unprecedented accommodations created during Bernanke's tenure. Should she continue to focus on low interest rates for the foreseeable future (and the Fed's asset purchasing programs remain active), this would be a net positive for bond prices, at least for the foreseeable future. However, the debt ceiling debates are overshadowing the Yellen nomination and likely will until Congress and the White House piece together an agreement. We would hope that it is a long-term, balanced compromise but a short-term fix and a prolonged battle appear much more likely at this point.

While Washington's infighting has stalled out the bond rally that followed the mid-September non-taper announcement by the Fed, the uncertainty has created some opportunities to buy bonds at some attractive yields. We were active in the new issuance market this week, participating in the Aaa/AAA Connecticut Housing revenue loan and the Aaa/AAA Virginia Housing Development Authority revenue loan, that offered enticing spreads (vs. MMD AAA scales) for stellar housing authorities. We were equally active in the secondary, buying several healthcare and general obligation blocks throughout the week. Though yields are not as high as mid-September, absolute levels are still well above what we were seeing in the springtime. Buyers are offered roughly 100 basis points (1.00%) more yield today than in early May in the 10-year range, according to Municipal Market Data's AAA Muni scale. Our duration profile is more conservative today than it was then and our purchases have become more concentrated in the 2-12 year range as opposed to as far out as 17 years. We remain defensive amidst this volatile period where Fed and governmental policy continue to be constantly evolving. However, there is still strong relative value to be found within the confines of our narrower maturity structure, especially in yieldier revenue sectors that are trading at wider levels versus the AAA scale than just a few months ago. A big challenge is still in the location of these value opportunities. Muni supply remains very constrained, down as much as 20% versus last year. Issuers are hesitant to bring debt to market in such an uncertain environment. Furthermore, tighter spending habits are still en vogue at the local government level following years of belt-tightening post-financial crisis. Lastly, the summer move to higher interest rates have made Muni borrowing costs higher and refunding deals not mathematically feasible. The muted supply (exacerbated by next week's Columbus Day holiday) is supportive of the asset class. In a vacuum, we would be much more optimistic towards Muniland; however, that is not the world in which we live. Instead, we will be closely monitoring developments inside the beltway and hope for progress in the coming days.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.35	-0.02	0.37	103%
5 Year	1.31	-0.03	1.34	94%
10 Year	2.60	0.06	2.54	97%
30 Year	4.18	0.07	4.11	112%
UST Rates				
2 Year	0.34	0.02	0.33	
5 Year	1.40	-0.01	1.41	
10 Year	2.68	0.02	2.66	
30 Year	3.74	0.00	3.74	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$3.54	\$2.86
Competitive	\$0.66	\$0.72
<b>TOTAL</b>	<b>\$4.20</b>	<b>\$3.58</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$7.21</b>	<b>\$8.18</b>
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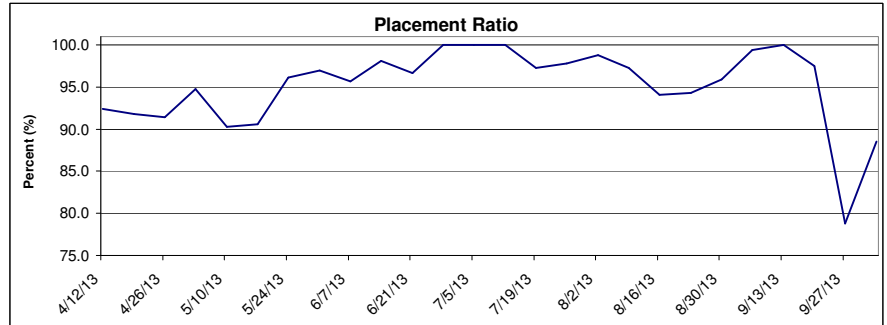
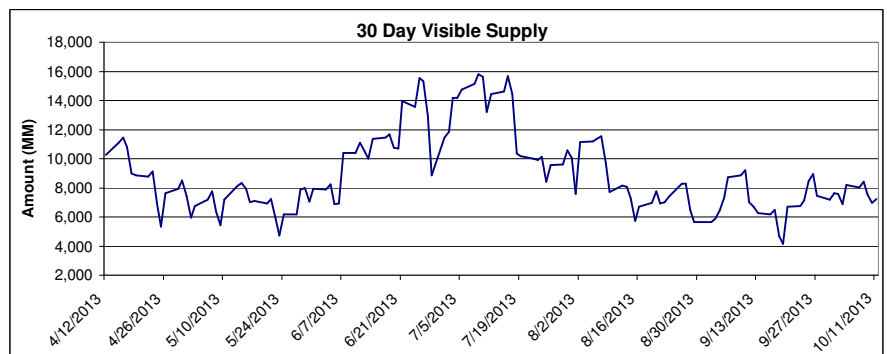
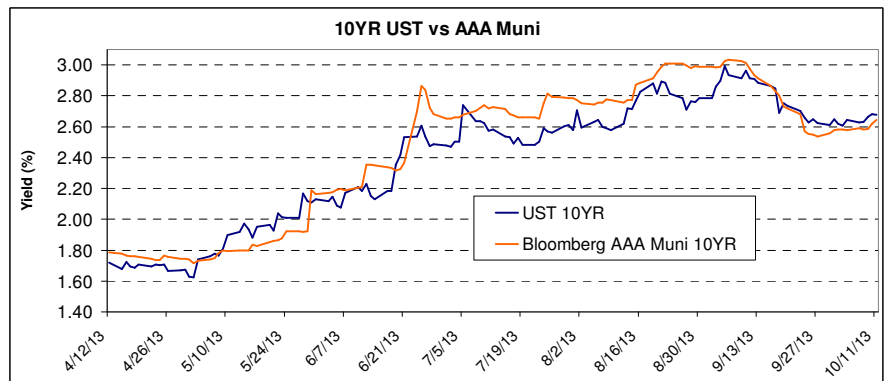
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.20</b>	<b>\$13.68</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>88.5%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.57%</b>	<b>4.53%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
10/15	Empire Manufacturing	Oct	7.4	6.3
10/16	MBA Mortgage Applications	11-Oct	--	1.3%
10/16	Federal Reserve Beige Book			
10/17	Initial Jobless Claims	12-Oct	335K	374K
10/17	Continuing Claims	5-Oct	2935K	2905K
10/17	Philadelphia Fed	Oct	15.0	22.3
10/18	Leading Index	Sep	0.60%	0.70%



## 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
Tactical Opportunity ETF	Min  Max		Equal Weight Munis to 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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