

Trading Desk Commentary

Bond market participants could finally breathe a shallow sigh of relief on Wednesday night as Congress was able to put a bill on the President's desk to end the 16-day-long government shutdown. Avoiding a potentially catastrophic default on US Treasuries was enough to push buyers back into the market and send the yield on the 10YR UST lower by approximately 10 basis points (.10%) from the end of last week - this despite an agreement that will only keep the government open until the middle of January and authorize further Treasury debt issuance into mid February. This lingering uncertainty now has investors questioning the timing of any removal of accommodation by the Federal Reserve. Key economic data releases that were scheduled for dissemination during the shutdown will now start to be released as early as next week, but will likely take several months, if not longer, to produce results that are not skewed by the timing and economic impact of the shutdown. It seems reasonable to expect that the Federal Reserve would want wait until they have a cleaner look at how the economy is actually progressing before any decisions are made. This seems to help reinforce the general market perception that it will now likely be 2014 before tapering actions may begin, but a surprise from the Central Bank is certainly not out of the question. As such, we remain defensively positioned across our strategies and continue to analyze the likelihood of various scenarios that may warrant an adjustment.

The municipal market this week was unable to enjoy that same surge in prices seen by their taxable counterparts after the signing of the debt ceiling bill. Yields finished the week roughly in line with where they were the week prior as several elements continued to weigh on the market. Municipal mutual funds again reported net outflows, with last week's total approximately -\$4.8 Billion according to Lipper. This represents the second largest week of redemptions in more than 20 years, and it comes at a time when the market is also experiencing increasing new issue supply. The 30 day visible calendar now shows approximately \$12 Billion dollars worth of loans in the hopper. As yield levels have remained substantially lower than they were in late summer it has allowed some of the previously sidelined refinancing loans to finally come to the market and entice additional new money borrowers to take advantage of more attractive financing levels while they are still available. These forces of additional supply pressure on the market certainly warrant continued observation as demand levels in the current environment could be quickly overrun sending municipal yields higher.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.35	0.00	0.35	113%
5 Year	1.26	-0.05	1.31	94%
10 Year	2.60	0.00	2.60	100%
30 Year	4.22	0.04	4.18	116%
UST Rates				
2 Year	0.31	-0.03	0.34	
5 Year	1.34	-0.06	1.40	
10 Year	2.59	-0.09	2.68	
30 Year	3.65	-0.09	3.74	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.43	\$3.54
Competitive	\$2.12	\$0.66
TOTAL	\$5.55	\$4.20

Municipal 30 Day Visible Supply (\$ Bln)	\$12.36	\$7.21
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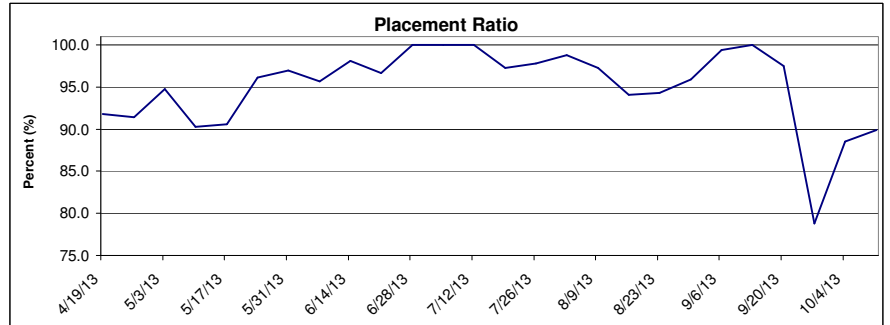
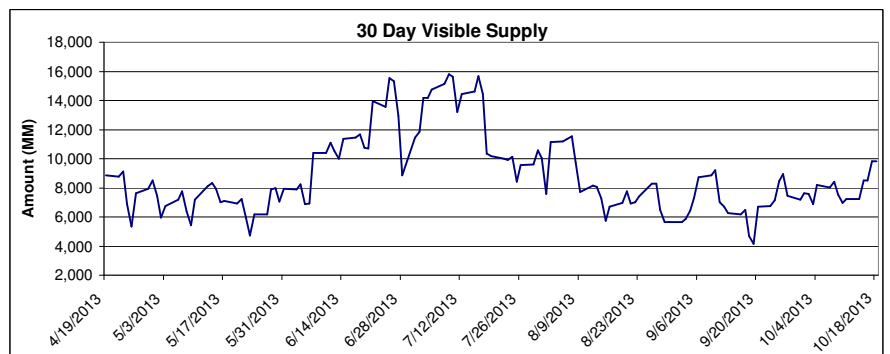
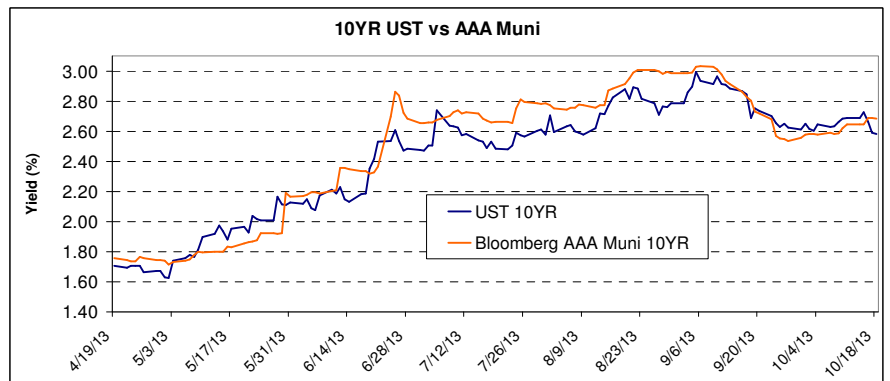
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.33	\$12.20
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Muni Placement Ratio (New Issues)	n/a	89.9%
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Bond Buyer 20 Municipal G.O. Index	4.68%	4.57%
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Select Economic Releases

Date	Event	Period	Survey	Prior
10/21	Existing Home Sales	Sep	5.30M	5.48M
10/22	Unemployment Rate	Sep	7.3%	7.3%
10/22	Change in Nonfarm Payrolls	Sep	180K	169K
10/22	Richmond Fed Manufact. Index	Oct	0.0	0.0
10/23	MBA Mortgage Applications	18-Oct	--	0.30%
10/23	Import Price Index MoM	Sep	0.2%	0.0%
10/23	House Price Index MoM	Aug	0.80%	1.00%
10/24	Initial Jobless Claims	19-Oct	340K	358K
10/24	New Home Sales	Sep	425K	421K
10/25	Durable Goods Orders	Sep	2.0%	0.1%
10/25	Univ. of Michigan Confidence	Oct F	75.0	75.2



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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