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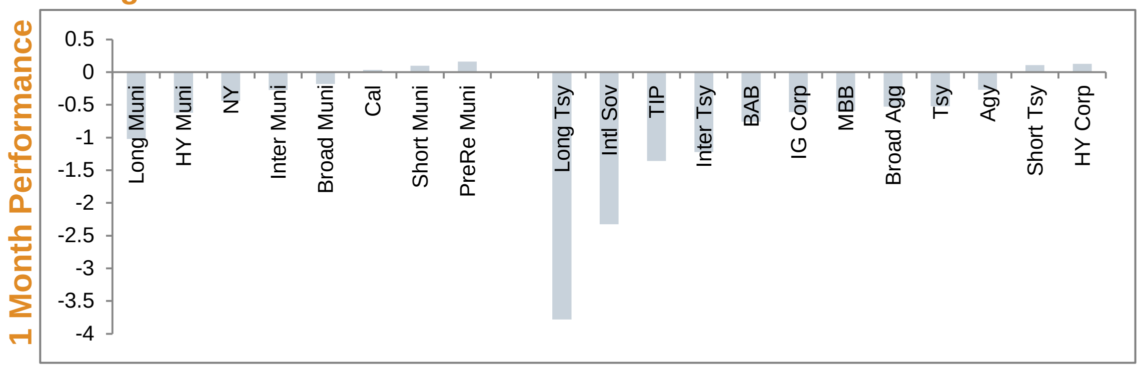
ETF COMMENTARY

NOVEMBER 2013

Strategic Overview

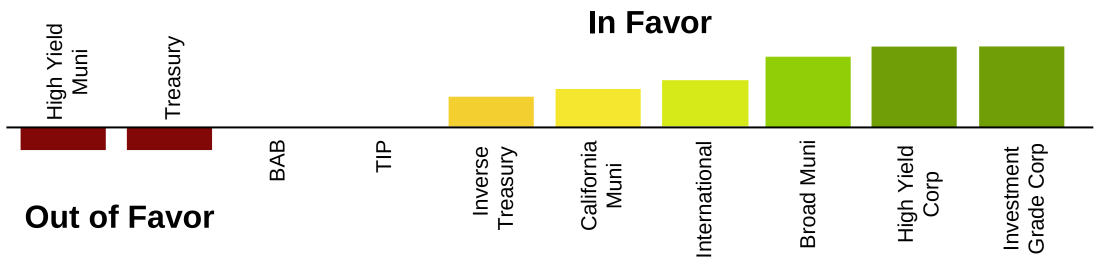
- The Federal Reserve remains vexed as it struggles to determine how best to trim QE without driving interest rates to undesirable levels. Reading between the lines of several Fed voices, we see a Fed that would prefer to ease off the accelerator but fears stalling the engine (economy). Fed officials are talking down Fed Funds, hoping to keep rate expectations in check, but the market will react once tapering becomes a likelier near-term possibility. If higher rates front-run plans to taper, will the Fed blink yet again?
- Janet Yellen's committee hearing and vote proceeded without incident. The Nominee voiced strong support for the efficacy of the Fed's quantitative easing and, if anything, sounded slightly more dovish than the man she is set to replace. Yellen will take office at the end of January, and we doubt we'll see tapering in the interim. Absent surprisingly positive employment data or a crack in the equity market, we expect a range-bound rate environment heading into the holidays.
- Due to this more stable outlook, we are holding duration a whisper short of neutral to benchmarks. Our objective is to strike a balance between expected short-term rate stability and the longer-term risk of rising rates. After reducing our Inverse UST ETF exposure in October, we eliminated it completely early this month, mindful of negative drag in a sideways market.
- In taxable strategies, we still have a slight "risk on" bias as equities and high yield corporate debt continues to shine. Within Muni ETF allocations, we favor California and New York state-specific ETFs as Muni supply should dwindle in the holiday season. Thus far in 2013, New York issuers have brought 35% less debt compared to the same period in 2012. California issuance has been relatively flat year-over-year.

Trending



Source: Bloomberg as of 11/25/13

Caprin Views



MANAGED ETF PORTFOLIO CHARACTERISTICS**

AS OF: 11/22/2013

Tactical Muni ETF:

Duration: 5.20yrs

Average Maturity: 6.99yrs

Indicated Yield: 2.85%

Blended 30-Day SEC Yield: 2.49%

Core Plus ETF:

Duration: 4.83yrs

Average Maturity: 6.56yrs

Indicated Yield: 2.30%

Blended 30-Day SEC Yield: 2.19%

Tactical Opportunity ETF:

Duration: 4.93yrs

Average Maturity: 6.78yrs

Indicated Yield: 2.73%

Blended 30-Day SEC Yield: 2.41%

**Blended Portfolio Characteristics based upon official Fund data published by each sponsor firm and have been compiled using weighted averages of then current portfolio positioning. These characteristics are believed to be accurate but are not guaranteed.

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