












Trading Desk Commentary

From an economic data standpoint, this week was relatively quiet. Some jobs, housing, and manufacturing numbers came and went with little surprise. Most of the releases printed close to expectations, with the exception of today's Empire Manufacturing update. The number looked somewhat disappointing and helped US Treasuries pare the losses they amassed in early trading. However, it was Janet Yellen's testimony and Q&A session with the Senate Banking Committee that inspired the most activity. In the months since the President announced her nomination, Yellen's proclivity to extend QE has been well circulated. We expected pro-stimulus language in her testimony, believing she would tout the need for prolonging Fed accommodation. Yellen did not disappoint. In fact, when the transcript of her opening statement was released Wednesday night, the verbiage she chose depicted a decidedly dovish outlook. By proclaiming that the economy was performing 'far below' its potential and that a highly accommodative Fed is the best medicine, Yellen sparked immediately stronger trading in US Treasuries. In our opinion, her statement essentially removed tapering from the table in December. Though Bernanke's term does not end until January 31, the central bank should already be preparing for the transition. It seems unlikely that the current Fed officers would hand over the reins to the new guard in the middle of a dramatic change in policy. Therefore, it is probably not unreasonable to begin focusing on Janet Yellen's take on the state of affairs in the US economy. So, what is our takeaway thus far? Her evaluation of the economy appears unfavorable, and to remove stimulus in the economy's 'fragile' state would be unwise. Her main concern is rampant unemployment and the long period it is taking the jobless to find work. QE is not a permanent solution, but it appears to still be one with some staying power. Therefore, we are preserving our neutral duration profile versus our strategy benchmarks, having lengthened our targets a few weeks ago in expectations of the improved bond environment we are now seeing.

MMD's AAA Muni benchmark yields have trickled to their highest point in a month and are offering a few decent buying opportunities. Limited Muni supply continues to support interest in the tax-exempt space. Bond Buyer expected less than \$7bln in new issuance over the next 30 days for most of the week. However, today we did see a fairly stark uptick to just over \$10bln. Roughly \$7.5bln in new debt is now expected next week alone. That will be the largest weekly issuance since July. Issuers are likely trying to squeeze in the loans before the holiday slowdown while taking advantage of today's rate stability. We would presume that issuers will be rewarded with strong buyer interest next week. Participants are supply-starved and have been since the end of the summer. Even though the 'fast money' in bond funds continues to move away from the asset class, new issuance in the cash market is still thriving. This was doubly true in the past week where most new deals saw their prices increased to keep pace with the firmer US Treasury backdrop and strong demand. A wide array of deal quality and structures will comprise the calendar, including a \$1.7bln (BB+/BB) Jefferson County, Alabama sewer revenue bonds, coming from the same county that went bankrupt in late 2011. The county plans to issue the debt as part of their debt restructuring plan to emerge from bankruptcy. It won't have any bearing on the AAA scale (or what we intend to buy), but it will provide a gauge for high yield Muni interest after a year of many high yield credit concerns (i.e. Puerto Rico, Detroit). We will continue our selective buying, especially in the first five years of the yields curve where we are scouring for higher yielding sectors to combat rates that are still anchored at very low levels.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni			Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable			Prefer Corporates and Taxable Munis
Intermediate Muni			Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable			Prefer Corporates and Taxable Munis
Tactical Muni ETF			Slight Overweight to CA and NY
Core Plus ETF			Slight Overweight to Corporates
Tactical Opportunity ETF			Equal Weight Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.33	-0.01	0.34	118%
5 Year	1.15	0.00	1.15	86%
10 Year	2.61	0.03	2.58	97%
30 Year	4.13	-0.02	4.15	109%
UST Rates				
2 Year	0.28	-0.03	0.31	
5 Year	1.34	-0.08	1.42	
10 Year	2.70	-0.05	2.75	
30 Year	3.79	-0.05	3.84	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.68	\$3.54
Competitive	\$1.03	\$1.50
TOTAL	\$7.71	\$5.04

Municipal 30 Day Visible Supply (\$ Bln)	\$10.14	\$10.76
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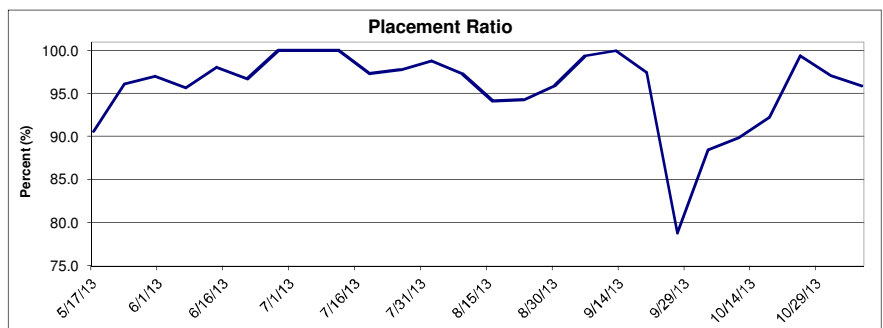
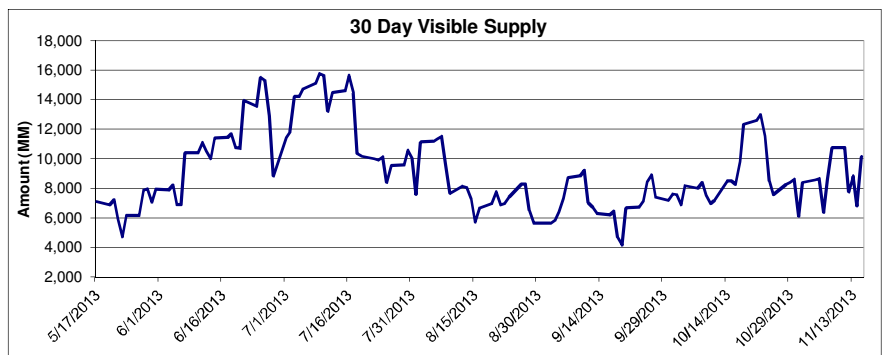
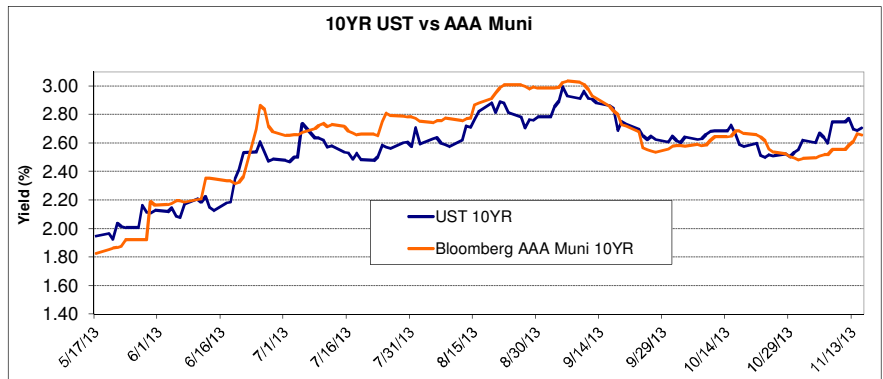
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.64	\$15.54
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Muni Placement Ratio (New Issues)	n/a	95.9%
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Bond Buyer 20 Municipal G.O. Index	4.64%	4.56%
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Select Economic Releases

Date	Event	Period	Survey	Prior
11/20	CPI MoM	Oct	0.0%	0.2%
11/20	MBA Mortgage Applications	15-Nov	--	-1.8%
11/20	Retail Sales Advance MoM	Oct	0.0%	-0.1%
11/20	Existing Home Sales	Oct	5.15M	5.29M
11/20	CPI Ex Food and Energy MoM	Oct	0.10%	0.10%
11/20	Fed Minutes			
11/21	Initial Jobless Claims	16-Nov	335K	339K
11/21	PPI MoM	Oct	-0.20%	-0.10%
11/21	Philadelphia Fed	Nov	16.0	19.8
11/21	Continuing Claims	9-Nov	2870K	2874K



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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