

Trading Desk Commentary

Fed speculation sat in the driver's seat this week as a few meaningful data points were released. Traders are still hyper-sensitive to new economic releases and reactions are on a release-to-release basis. Wednesday served as a prime example of the world we are living in – bonds traded off on better-than-expected retail sales numbers only to rally following some weaker housing data. At least markets are behaving more traditionally at present. In weeks past, bad news was good news for traders who viewed weak economic activity as a signal for prolonged stimulus and an ultra-supportive environment in asset prices. Now that the Fed is framing the taper talk within a “not today, probably not tomorrow, but soon” context, this has freed up trading activity to more successfully align with real economic activity. We still do not believe that the central bank will announce tapering at the December meeting, but the early-2014 tapering scenario looks like the most probable. This feels close or “real” enough, if you will, to encourage positioning for the inevitable reduction in Fed stimulus. The biggest threat to this course remains political infighting due to recommitment in January. The Fed admits that the bipartisan brinkmanship validated its decision to postpone tapering at the September meeting. In fact, Atlanta Fed President Dennis Lockhart said as much this morning on CNBC's Squawk Box. If Washington can show the ability to cooperate and negotiate in the weeks leading up to the next debt deadline, this could embolden the Fed to pull the tapering lever. But, we view this as unlikely. The Fed may still feel it needs to insulate markets and economic activity as much as possible from the next round of budget debates. Furthermore, the housing sector will need to show that it can withstand a grind to higher interest rates without home purchasing coming to a standstill. Labor markets appear to be performing a bit better as of late, but still nowhere near to the level necessary to validate tighter monetary policy. We believe that we are not quite at the QE finish line yet – and that the Fed will likely agree come December.

US Treasury yields did jump higher on the week, based on average-to-better-than-expected economic data throughout the week. Muni activity appeared to hang in a little better than their taxable counterpart though some of the largest deals' prices were lowered mid-week. One exception was the \$1.5bln (Aa3/AA-) Port Authority of New York and New Jersey revenue loan that saw price bumps during its order period, reaching historically aggressive levels. Particularly in the front end of the maturity curve where the bonds offered meager yield pick-up versus the MMD AAA benchmark scale. The success of the deal is likely due to the paltry New York issuance this year which is 35% less than 2012's total over the same period. High grade Munis appear to be catching a decent bid in the secondary which are hovering near their highest yields in 2 months. We were active bidders this week and view the current environment as an opportunity to put some money to work at attractive levels. While we believe the close of the year could be choppy, we still feel as though we are range bound for the next few weeks. The holiday season begins next week which typically marks a stark reduction in activity. Bond Buyer 30-day Muni supply is down close to \$4bln and only about \$1bln is expected next week. Our strategy durations are still being managed close to neutral in anticipation of a “sideways” trading environment. The key will be knowing how and when to reposition based on Fed action; however, we do not want to leave yield on the table by shortening duration too early. This means we will be updating our macro outlook regularly and believe the next longer –term rate trend will likely take us to higher yields. We hope everyone has a safe and happy Thanksgiving.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni		0 YRS 5 YRS	Prefer HIth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable		0 YRS 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni		0 YRS 17 YRS	Prefer HIth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable		0 YRS 12 YRS	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	0.00	0.33	118%
5 Year	1.16	0.01	1.15	86%
10 Year	2.66	0.05	2.61	97%
30 Year	4.14	0.01	4.13	108%
UST Rates				
2 Year	0.28	0.00	0.28	
5 Year	1.35	0.01	1.34	
10 Year	2.75	0.05	2.70	
30 Year	3.83	0.04	3.79	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$0.13	\$6.68
Competitive	\$0.39	\$1.03
TOTAL	\$0.52	\$5.04

Municipal 30 Day Visible Supply (\$ Bln)	\$4.23	\$10.14
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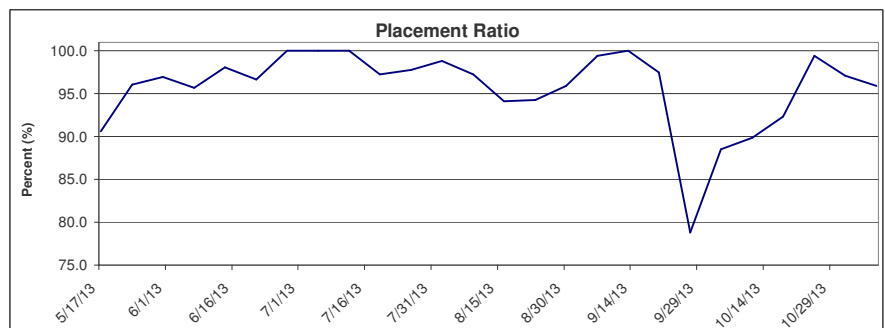
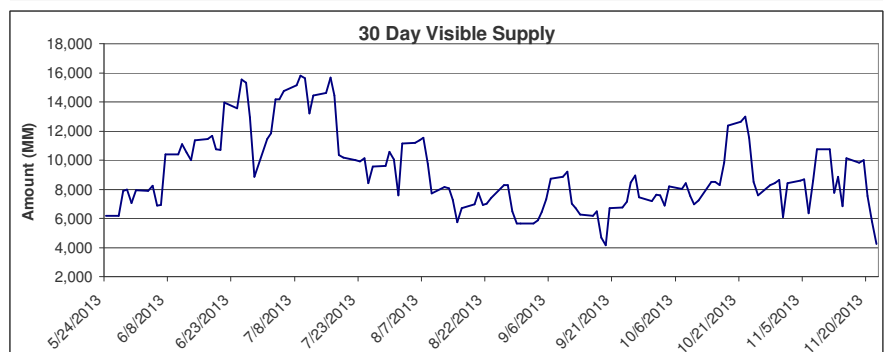
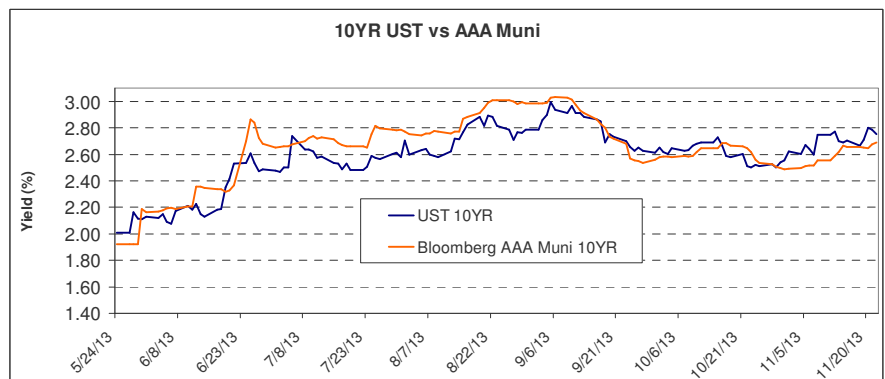
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.93	\$12.64
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Muni Placement Ratio (New Issues)	n/a	95.9%
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Bond Buyer 20 Municipal G.O. Index	4.60%	4.64%
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Select Economic Releases

Date	Event	Period	Survey	Prior
11/25	Pending Home Sales MoM	Oct	1.1%	-5.6%
11/26	Housing Starts	Oct	920K	--
11/26	Building Permits	Oct	930K	--
11/26	Consumer Confidence Index	Nov	72.4	71.2
11/26	Richmond Fed Manufact. Index	Nov	3.0	1.0
11/27	MBA Mortgage Applications	22-Nov	--	-2.3%
11/27	Initial Jobless Claims	23-Nov	330K	323K
11/27	Continuing Claims	16-Nov	2850K	2876K
11/27	Durable Goods Orders	Oct	-1.9%	3.7%
11/27	Chicago Purchasing Manager	Nov	60.0	65.9
11/27	Univ. of Michigan Confidence	Nov F	73.0	72.0



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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