












Trading Desk Commentary

The holidays have kept trading activity at a standstill in tax-exempts, despite some US Treasury and equity market volatility. The last two weeks of the year were as thinly staffed as one would expect leaving Munis to look for US Treasuries for guidance. Markets are still in the process of digesting the \$10bln taper announcement by the Fed, which came a bit earlier than the street's consensus expectations; however, much of the bond market's reaction was priced in by the time the Fed pulled the trigger. To us, the equity market reaction was more surprising given that US stocks appeared ripe for a pullback at news of the taper considering the strength and duration of its ongoing rally since early October. Perhaps the reality of a less supportive (albeit still very accommodative) Fed would sour the mood. Instead of this scenario playing out, risk trading focused on the positive. They took the Fed's decision as an affirmation that the US economy's outlook significantly improved in the last quarter of 2013 and that the Fed believed it could sustain a gradual reduction in support. This sentiment has persisted fairly unabated (until yesterday), though the Dow is still only 125pts from its all-time high. This was a pretty nifty trick by Bernanke, who seems to have successfully shifted the market's focus back to fundamentals and away from central bank policy. The 10-year US Treasury activity in the wake of the Fed's December meeting closely mirrored the reaction we saw in September, when most traders thought Fed tapering was a foregone conclusion. Just like September, the 10Yr UST yield migrated to 3.00%, where it still hovers as of this writing. Going forward, we suspect rates and equities will remain highly data dependent, much like the new Fed regime that is about to begin. If data starts to falter, we expect the Fed to go a meeting or two without further stimulus reductions. However, a steady-to-improving environment will pave the way for incremental reductions in stimulus throughout 2014 until the Fed is no longer an active purchaser of Treasuries or Mortgages. Still, Bernanke's very dovish Fed funds rate guidance leaves the door open for a historically accommodative Fed to persist well beyond the end of 2014. This should also provide participants some comfort and keep rates somewhat in check even as the Federal Reserve winds down its asset purchasing.

Although the Muni market has felt stagnant, we have been actively bidding and purchasing bonds in this environment. It offers some the most enticing yields in over three months. Our duration targets remain more conservative than earlier in 2013. Yields still probably have a slight bias higher for the time being, and we prefer to stay on the shorter end of our operating duration bands. Our buying is confined to the first 12 years of the maturity curve with a slightly more pronounced concentration in the first 2-5 years. On a historical basis, yields are still stubbornly low in that range. Therefore, we are searching for issuers' debt that offers some extra spread over the AAA benchmarks. This has been a demanding task for most of 2013 – not just due to the constant battle against low yields but also the supply dearth that is making what supply is available that much more expensive. It requires being patient – bonds are trading away at levels where we feel like investors are not being realistically compensated for their respective risks - especially in shorter names. It also requires diligence in scouring the market for attractive buy candidates and putting our best foot forward when bidding. Some we will win, some we will lose. But with this strategy we will only be buying bonds at what we feel are fair-to-cheap levels given market conditions.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni		0 YRS  5 YRS	Prefer Hlth, 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 Hlth, 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
Core Plus ETF			Slight Overweight to Corporates
Tactical Opportunity ETF			Slight Overweight Taxables to Munis

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.35	0.02	0.33	90%
5 Year	1.32	0.08	1.24	76%
10 Year	2.79	0.02	2.77	93%
30 Year	4.20	0.00	4.20	107%
UST Rates				
2 Year	0.39	0.01	0.38	
5 Year	1.73	0.00	1.73	
10 Year	2.99	-0.01	3.00	
30 Year	3.93	0.00	3.93	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$0.98	N/A
Competitive	\$0.92	N/A
TOTAL	\$1.90	\$0.00

Municipal 30 Day Visible Supply (\$ Bln)	\$5.46	\$2.24
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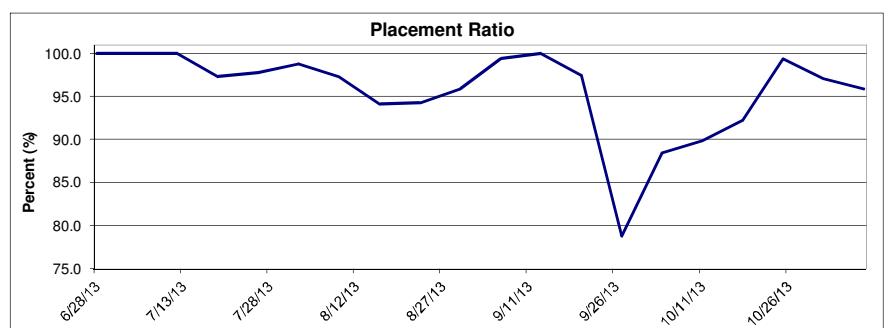
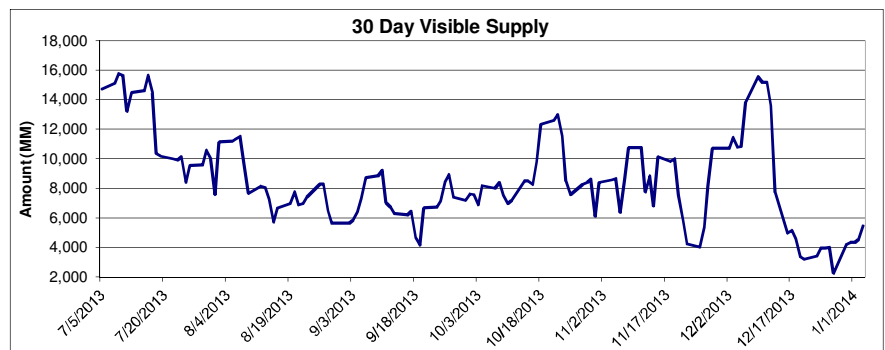
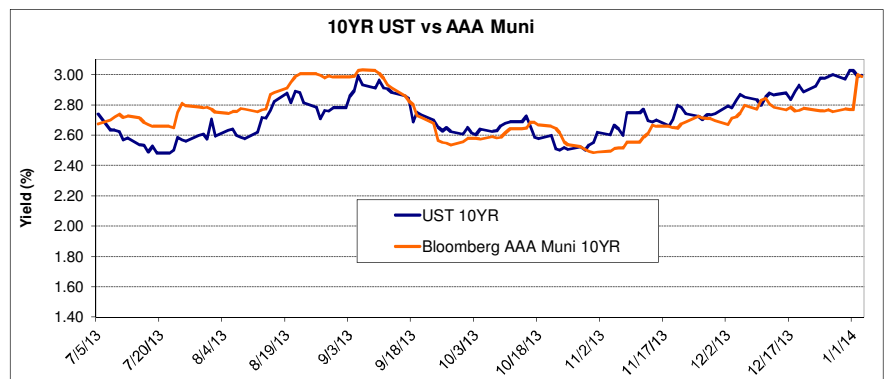
Bloomberg Muni PICK Offerings (\$ Bln)	\$5.68	\$11.25
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Muni Placement Ratio (New Issues)	n/a	95.9%
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Bond Buyer 20 Municipal G.O. Index	4.75%	4.73%
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Select Economic Releases

Date	Event	Period	Survey	Prior
1/6	Factory Orders	Nov	1.70%	-0.90%
1/6	ISM Non-Manf. Composite	Dec	54.50	53.90
1/8	MBA Mortgage Applications	3-Jan	--	-6.30%
1/9	Initial Jobless Claims	4-Jan	335K	339K
1/10	Change in Nonfarm Payrolls	Dec	193K	203K
1/10	Unemployment Rate	Dec	7.00%	7.00%
1/10	Wholesale Inventories	Nov	0.40%	1.40%



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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