

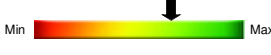

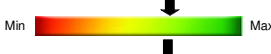


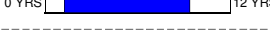


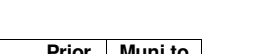


## Trading Desk Commentary

What to make of the surprisingly dreadful Nonfarm Payrolls number today? The release sent US Treasury yields tumbling to their lowest level in a month. The NFP number came on the heels of a better than expected ADP Employment release on Wednesday and several months of increasingly optimistic labor market data. It appears that some of the big miss can be explained by the weather in December with households reporting an unusually high number of people that were not able to work due to the harsh conditions. Even so, the number shows that 2014 is not going to be a non-stop parade of good news. There will be disappointments along the way, and this release serves as a prime example. It is easy to get lulled to sleep by the Fed's rosier economic outlook, the tidiness of their implied tapering plan, and the trend of improving economic activity that we have seen since the autumn months. We seriously doubt today's jobs number establishes a new trend; in fact, it is quite possible we could see a significant upward revision in the data in the next round of updates. But there are some concerns. The Unemployment Rate fell to 6.7% from 7.0%. On the surface this looks all well and good, now sitting at its lowest level since October 2008. But the underlying metrics tell a different story. A historically large number of survey takers are reporting that they are no longer actively looking for work, dragging down the participation rate to 62.8%, tied with October's report for its lowest point since 1978. This continues to explain a large portion of the declining Unemployment Rate and instills little confidence in the economy's stability.

Munis improved every day this week, taking some guidance from US Treasuries but even strengthened on Tuesday as US Treasuries sold off. Activity seemed healthier this week than last, though opportunities in the primary market are still few and far between. One of the few deals in which we participated in the primary (\$96mln (Aaa/AAA) City of Columbus, Ohio general obligation bonds) saw its prices bumped significantly in its retail order period due to strong buyer interest. Secondary activity performed just as well. Bidding felt snappier, and trade prints looked aggressive overall. We remain very choosy in our purchases. Many blocks continue to trade at levels we deem unreasonable. This has been the case for some time now – plenty of people still want exposure to traditional Municipal bonds, as evidenced by a very successful 2013 for Muni debt distribution. One interesting Muni development: Lipper reported Thursday a shockingly small weekly outflow in Muni bond funds (\$19mln). It still keeps the 30+ weeks of divestitures alive, but this is an abrupt decline in very large outflows. Perhaps the January reinvestment activity is helping slow them down. It was unclear coming into 2014 whether typical January flow data was relevant this year given the persistent exodus from the asset class in 2H 2013. The Fed's commitment to low borrowing rates for years to come, coupled with some of the most enticing yields in recent memory, could be pulling some buyers off the sidelines. Though it is hard to get excited about yet another outflow, it is probably fair to say that this is a small win for the asset class. Could this signal increased support in tax-exempt bond funds on the horizon? Stay tuned.

## 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			Neutral Taxables to Munis

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.34	-0.01	0.35	92%
5 Year	1.17	-0.15	1.32	72%
10 Year	2.64	-0.15	2.79	92%
30 Year	4.01	-0.19	4.20	106%
<b>UST Rates</b>				
2 Year	0.37	-0.02	0.39	
5 Year	1.62	-0.11	1.73	
10 Year	2.86	-0.13	2.99	
30 Year	3.79	-0.14	3.93	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$1.22	\$0.98
Competitive	\$3.19	\$0.92
<b>TOTAL</b>	<b>\$4.41</b>	<b>\$1.90</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$7.71</b>	<b>\$5.46</b>
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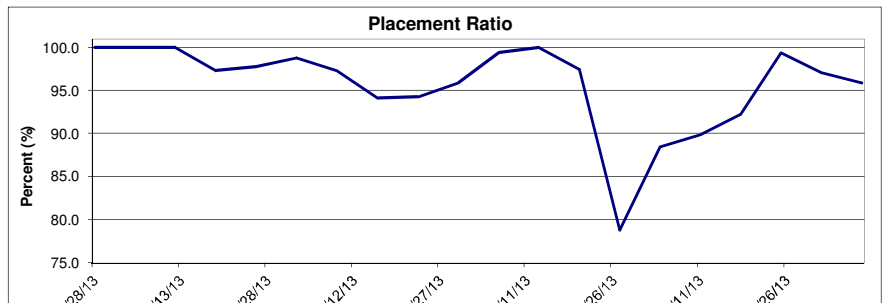
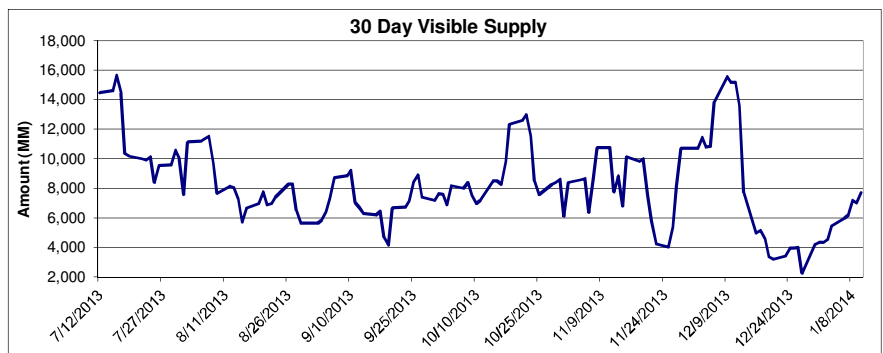
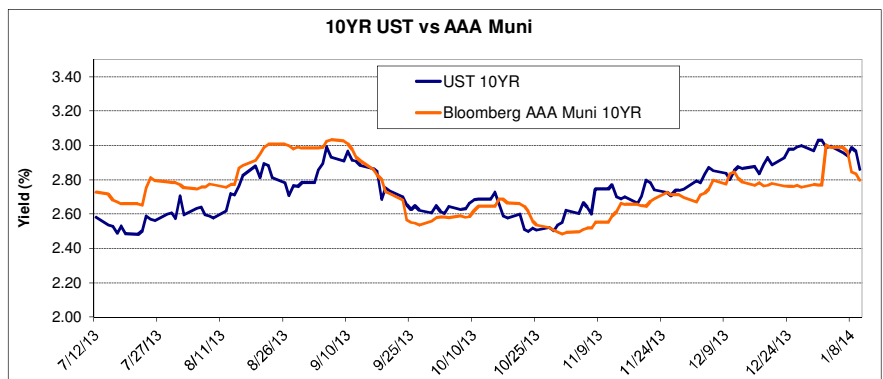
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$13.08</b>	<b>\$5.68</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>95.9%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.68%</b>	<b>4.75%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
1/14	Retail Sales Advance MoM	Dec	0.10%	0.70%
1/14	Import Price Index MoM	Dec	0.30%	-0.60%
1/15	MBA Mortgage Applications	10-Jan	--	2.60%
1/15	PPI MoM	Dec	0.40%	-0.10%
1/15	Empire Manufacturing	Jan	4.00	0.98
1/16	Initial Jobless Claims	11-Jan	325K	330K
1/16	CPI MoM	Dec	0.30%	0.00%
1/17	Housing Starts	Dec	991K	1091K
1/17	Industrial Production MoM	Dec	0.30%	1.10%
1/17	Univ. of Michigan Confidence	Jan P	83.5	82.5



**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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