Weekly Trading Desk Update

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Trading Desk Commentary

On Tuesday, newly anointed Fed Chair Janet Yellen offered her first statements and fielded questions from Congress since taking the reins of the world's most influential central bank. Participants listened intently in hopes of gaining further insight into what can be expected from the new Fed regime. Yellen largely stuck to the same script that the Fed used in the months leading up to Bernanke's departure. For those who, like us, have to be attuned to Fed policy and fluent in Fedspeak, very little of what was said Tuesday came as a surprise. Yellen stressed the 'continuity' that she expects to see from the previous FOMC, a point that came as a relief to the markets based on equities' positive reaction. The FOMC's timeline for incremental stimulus reductions throughout 2014 remains intact. The Fed will continue to be highly reliant on data, especially so with respect to labor markets and inflation. Yellen's comments were well-timed to help ease some of the tension that has recently mounted in US markets - domestic data is in the midst of a less-than-stellar streak - so the idea of a supportive Fed surviving through its recent transition is comforting to investors. The Federal reserve will continue to focus on suppressing interest rates for the foreseeable future, something that will be critical in preventing the housing market from giving up the gains its has amassed in the past two years. We are seeing in recent housing data that the spike in interest rates ahead of the Fed's first taper probably did damage to housing demand. Yellen will be paving a difficult road for US markets and the economic recovery. Bernanke spent his Fed years in crisis mode, and extreme measures were used to prevent outright catastrophe. Now, Yellen is tasked with a weaning the US off of its stimulus dependence – but the system will demand verifiable improvement in US conditions before accepting tighter monetary policy. On the other hand, over-accommodation could reintroduce bubble-like conditions and expose the painful flip-side of the Fed taking stimulus measures too far.

US Treasury yields nudged higher on the week, though a disappointing retail sales report boosted demand for quality yesterday. Yellen's dovish comments assisted with the general 'risk on' sentiment as did Congress' measure to suspend the debt ceiling limit into early 2015. The bill effectively pushes the nasty infighting in Washington over the debt limit off for over a year. While this is by no means a permanent resolution, it does remove the uncertainty that plagues debt limit deadlines for all of 2014. US Munis continue to lay in wait for more supply, and demand strongly outstripped new issuance yet again. Deals, in many cases, were massively oversubscribed and saw their prices adjusted substantially upward. With the President's Day holiday on Monday, roughly $2.3bln is expected next week, another negligible week. The Bond Buyer 30-day visible paints a similarly grim supply picture. We expect Munis to continue to take their cues from US Treasury trading, but the lack of significant activity will likely mute tax-exempts' move in any direction. Lipper's weekly fund flow report remained positive in Muni funds, though the combined monthly and weekly reporting numbers showed net divestitures among investors. The improved tone in equities likely contributed to the more downbeat flow data and will be worth monitoring in the coming weeks. Puerto Rico's back-to-back-to-back downgrades in the past two weeks from the three major rating agencies may have startled some Muni fund investors. Regardless of reason, persistent outflows returning to the tax-exempt space could pressure spreads and ratios versus Taxables. On the plus side, there appear to be enough buyers actively searching for paper that such selling would likely be met with open arms by those looking to get cash to work.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min – Max	0 YRS – 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Mi – Max	0 YRS – 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Mir – Max	0 YRS – 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Mi – Max	0 YRS – 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min – Max		Slight Overweight to CA
Core Plus ETF	Min – Max		Slight Overweight to Corporates
Tactical Opportunity ETF	Mi – Max		Overweight Taxables to Munis

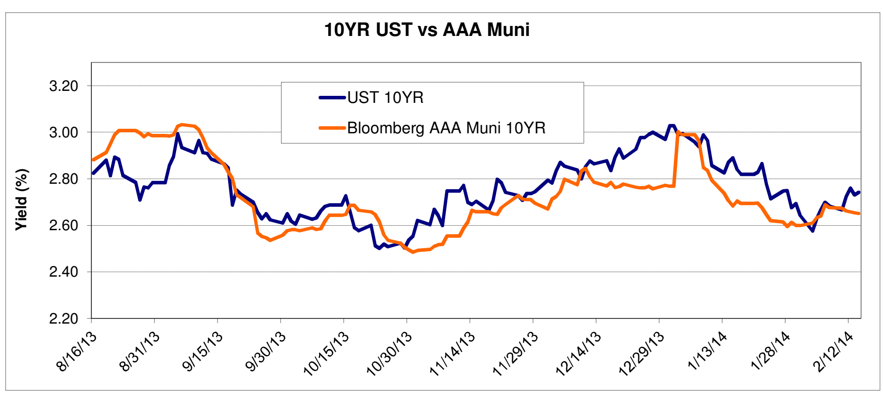
Market Overview

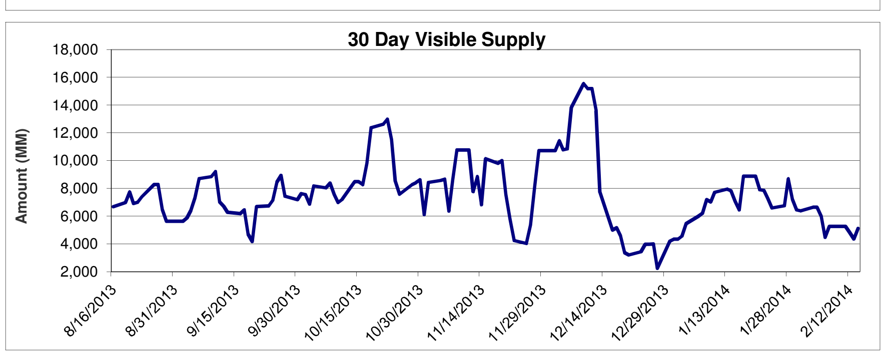
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	97%
5 Year	1.10	-0.01	1.11	72%
10 Year	2.52	0.00	2.52	92%
30 Year	3.87	0.03	3.84	105%
UST Rates				
2 Year	0.32	0.02	0.30	
5 Year	1.52	0.05	1.47	
10 Year	2.75	0.07	2.68	
30 Year	3.70	0.03	3.67	

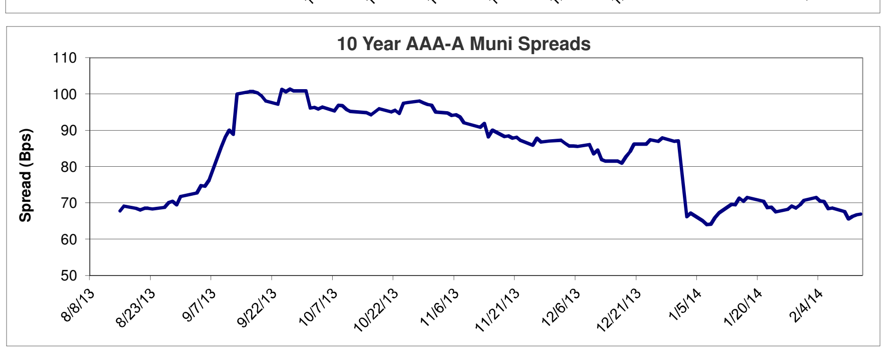
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$1.68	$1.40
Competitive	$0.57	$0.98
TOTAL	**$2.25**	**$2.38**
Municipal 30 Day Visible Supply ($ Bln)	**$5.13**	**$5.25**
Bloomberg Muni PICK Offerings ($ Bln)	**$12.19**	**$12.22**
Bond Buyer 20 Municipal G.O. Index	**4.46%**	**4.46%**

Select Economic Releases

Date	Event	Period	Survey	Prior
2/18	Empire Manufacturing	Feb	9.75	12.51
2/19	MBA Mortgage Applications	14-Feb	--	-2.00%
2/19	Housing Starts	Jan	950K	999K
2/19	PPI MoM	Jan	--	0.40%
2/20	Initial Jobless Claims	15-Feb	330K	339K
2/20	CPI MoM	Jan	0.10%	0.30%
2/20	Leading Index	Jan	0.40%	0.10%
2/20	Philadelphia Fed Business Outlo	Feb	10.00	9.40
2/21	Existing Home Sales	Jan	4.70M	4.87M







Please refer to the second page for explanations of key measures, sources, and disclosure information.

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.

AAA-A Muni Spreads - The difference in yield, as expressed in basis points (.01%), between the Bloomberg BVAL AAA 10 Year Benchmark Muni Index and the BVAL A Revenue 10 Year Muni Index.

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 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.