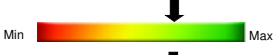



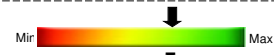

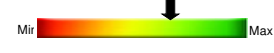

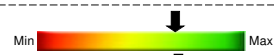




## Trading Desk Commentary

The Fed's downplaying continues. We saw the flipside of this coin on March 19th. Yellen's mention of a theoretical 'six-month' timeline for raising rates following the completion of the tapering schedule sent rates on a day-and-a-half tear higher. Now, the Fed wants everyone to know they may have overreacted. Be it through Yellen's backtrack on March 31st at a Chicago conference where she let her dove flag fly or this week's Fed minutes, the Fed is trying to communicate that they are going to be supportive for a substantial amount of time. Since the end of January, the 10-year US Treasury bond has traded in a 25 basis point range with a roughly 2.80% top end. With the accommodative language piling up, bond yields are trading near the bottom of the 3-month channel. The 30-year US Treasury bond is trading at its lowest yields since last July. This week reinforced the decidedly 'risk-off' bias as equities fell to their lowest point in a couple of months. Today's higher-than-anticipated PPI and University of Michigan Confidence numbers softened the early rally in US Treasuries, but was not enough to knock them off course. The central bank has made it abundantly clear that inflation and jobs will dictate its policy going forward - it is going to take significantly more convincing data than what we saw today to spark any kind of Fed action.

As to be expected amidst such low Municipal supply, tax-exempts took their direction from US Treasury trading. Munis outperformed their taxable counterparts on the week. All signs are showing that the pre-Tax Day selling in MuniLand that has become an annual tradition is now complete. Lipper reported decent inflows into Muni bond funds on the week, ending a two-week skid. This supports our previous notion that the exits from Muni funds were not showing any shifting sentiment in Munis, just the seasonal tax effect. Muni-to-Treasury ratios compressed this week, despite already sitting at historical highs. Higher individual taxes and awful supply are probably the culprits. Neither of these two factors will be going away anytime soon, so we should probably accept these ratios as the new norm. On Wednesday, reports circulated that Puerto Rico hosted another round of meeting for restructuring experts who were focusing on the Commonwealth's utility and infrastructure entities. The news certainly did not help Puerto Rico's trading levels. This morning, (Ba2/BB+) Puerto Rico general obligation debt dated in 2035 from its recent \$3.5bln issue was trading near-\$90 levels. At today's close the bid side was below \$87, and this same maturity traded at \$99 almost exactly a month ago. As we said in our blog piece from Wednesday, we are not comfortable with this level of volatility, which has no place in the strategies we manage. Its fiscal follies have kept us far away from the Commonwealth's debt for years and will continue to do so. Next week, we are expecting a tiny supply week given the Good Friday holiday that will constrain issuers into a four-day week. Activity will become virtually non-existent by Wednesday afternoon. Only \$2.55bln is expected to come to market next week with just one deal over \$300mln. Lazy weeks like the one we can expect coming up do sometimes offer opportunities to uncover value. A glance at next week's supply does not do much to get us excited; the secondary will likely get the bulk of our emphasis. We expect another firm, quiet week heading into the Easter holiday.

## 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                   |
| Core Plus ETF            |  |  | Slight Overweight to Corporates           |
| Tactical Opportunity ETF |  |  | Slight Overweight Munis to Taxables       |

## Market Overview

| Muni Rates | Current Wk | Yld Change | Prior Wk | Muni to UST |
|------------|------------|------------|----------|-------------|
| 2 Year     | 0.39       | 0.00       | 0.39     | 111%        |
| 5 Year     | 1.19       | -0.11      | 1.30     | 76%         |
| 10 Year    | 2.33       | -0.16      | 2.49     | 89%         |
| 30 Year    | 3.50       | -0.14      | 3.64     | 101%        |

| UST Rates | Current Wk | Yld Change | Prior Wk |
|-----------|------------|------------|----------|
| 2 Year    | 0.35       | -0.06      | 0.41     |
| 5 Year    | 1.56       | -0.14      | 1.70     |
| 10 Year   | 2.61       | -0.12      | 2.73     |
| 30 Year   | 3.47       | -0.12      | 3.59     |

|   | Current Wk    | Prior Wk      |
|---|---------------|---------------|
| <b>Weekly Municipal Supply (\$ Bln)</b> |               |               |
| Negotiated                              | \$1.27        | \$3.74        |
| Competitive                             | \$1.22        | \$1.45        |
| <b>TOTAL</b>                            | <b>\$2.49</b> | <b>\$5.19</b> |

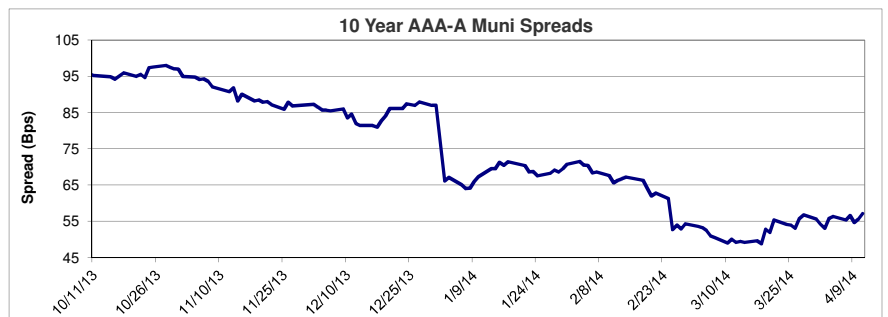
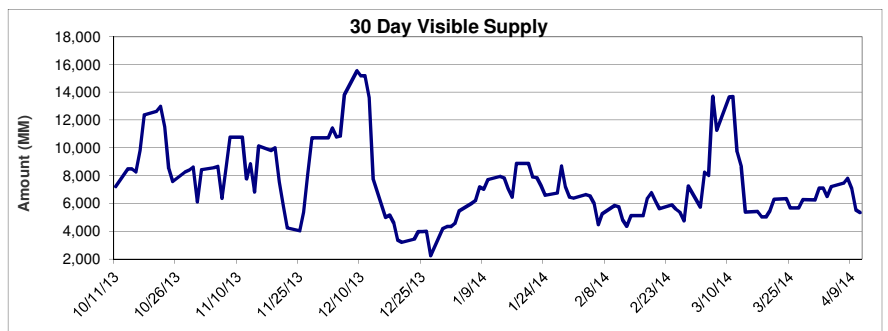
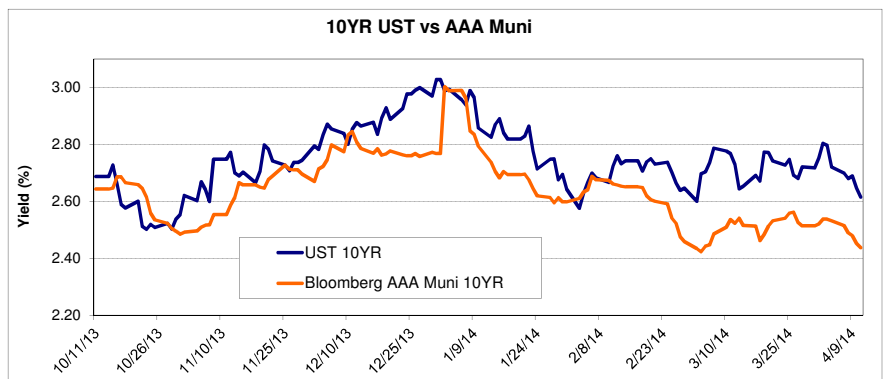
|   |               |               |
|---|---------------|---------------|
| <b>Municipal 30 Day Visible Supply (\$ Bln)</b> | <b>\$5.36</b> | <b>\$7.21</b> |
|---|---------------|---------------|

|   |                |                |
|---|----------------|----------------|
| <b>Bloomberg Muni PICK Offerings (\$ Bln)</b> | <b>\$11.70</b> | <b>\$13.98</b> |
|---|----------------|----------------|

|   |              |              |
|---|--------------|--------------|
| <b>Bond Buyer 20 Municipal G.O. Index</b> | <b>4.32%</b> | <b>4.44%</b> |
|---|--------------|--------------|

### Select Economic Releases

| Date | Event                           | Period | Survey | Prior  |
|------|---------------------------------|--------|--------|--------|
| 4/14 | Retail Sales Advance MoM        | Mar    | 0.80%  | 0.30%  |
| 4/15 | CPI MoM                         | Mar    | 0.10%  | 0.10%  |
| 4/15 | Empire Manufacturing            | Apr    | 8.00   | 5.61   |
| 4/16 | MBA Mortgage Applications       | 11-Apr | --     | -1.60% |
| 4/16 | Housing Starts                  | Mar    | 975K   | 907K   |
| 4/16 | Industrial Production MoM       | Mar    | 0.50%  | 0.60%  |
| 4/17 | Initial Jobless Claims          | 12-Apr | 311K   | 300K   |
| 4/17 | Philadelphia Fed Business Outlo | Apr    | 10.00  | 9.00   |



**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.

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