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Weekly Trading Desk Update

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Trading Desk Commentary

On Wednesday, the third (and final) revision to Q1 GDP showed that the US economy fared far worse in the first three months of the year than previously thought. The latest release showed that US growth declined at an annualized rate of –2.9%. This is the largest quarter-to-quarter decline since 2008 when the recession was baring its teeth. The scapegoat remains a familiar one: weather. Sure it's 90+ degrees here in Richmond, but as far as GDP is concerned, we are still stuck in sub-zero temperatures and blizzard conditions. But this is not an attempt to shrug off the effects of the cold months. The miserable winter certainly disrupted normal economic operations. It posed a drag on consumer activity, hiring and housing production. But what's going on now in the warmer months? Most forecasters are leaning on a strong Q2 rebound to make up for the startlingly bad start to the year, but we are skeptical. Negative 2.9% GDP is not something we can sweep under the rug. For example, take this week's Consumer Spending data. Not only did it fall short of survey, but adjusted for inflation the numbers actually fell in recent months. Data like this do not bode well for the economy moving forward. In fact, we are already seeing pockets of downward revisions to 2014 GDP forecasts (including at the Federal Reserve). If this environment persists, it could present a confounding situation for the US central bank – prices are ticking up as growth forecasts recede. Personal Income did show a decent uptick this week but the miss in spending data suggests Americans are holding on to wage increases, not deploying those dollars back into the economy. Coupling Personal Spending and Personal Income can serve as a homemade version of a consumer confidence index. Elevated confidence in the economy's prospects helps consumers loosen their purse strings. This week's reported increase in wages combined with lower spending depicts a work force that's not buying into a recovery just yet. Next week offers up new a Nonfarm Payrolls release and Unemployment Rate. These metrics remain pivotal to Fed policy and are instrumental as investors scrutinize them for improvement. If evidence starts to pile up that Q2 activity is failing to overcome Q1's weakness, concerns over the economy's strength will grow – quickly.

A strong US Treasury backdrop and ongoing inflows into Muni bond funds supported this week's Muni supply. We were very active in this week's primary calendar – and we were not alone. All of the deals we participated in were well oversubscribed (orders > available bonds). New issuance remains engulfed by investor demand. Our strong dealer network has been critical in gaining access to this year's deals while supply sits so low. Next week, observance of the July 4th holiday on Friday will compress trading into four days. Only $2bln or so in new debt is expected to come to market and activity will likely slow by mid-week. The employment data on Thursday morning could affect US Treasuries but any movement may have a hard time translating over to Munis until the following week. Our near-term outlook in Munis remains relatively unchanged. Supply will stay low, demand will stay healthy and a range-bound US Treasury market should continue to support interest in fixed income. We continue to invest cash within our neutral duration profile.

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	Min / Max	0 YRS – 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min / Max	0 YRS – 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Min / Max	0 YRS – 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min / Max		Overweight to CA
Core Plus ETF	Min / Max		Slight Overweight to Corporates
Tactical Opportunity ETF	Min / Max		Slight Overweight Munis to Taxables

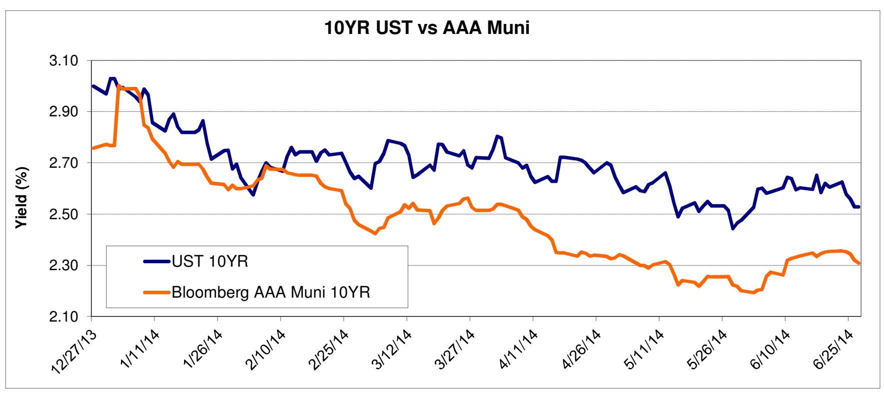
Market Overview

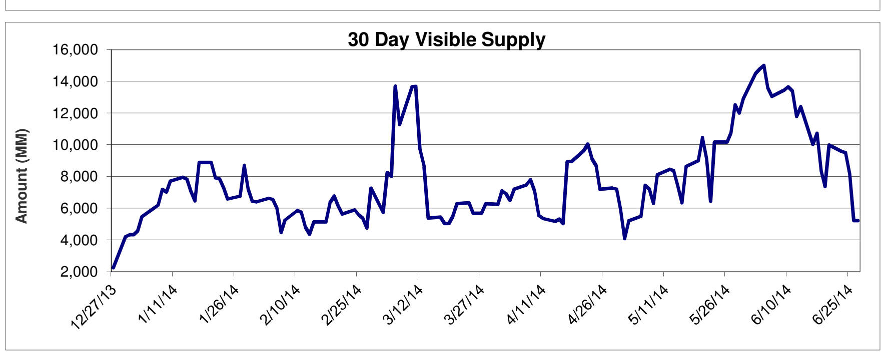
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.28	-0.02	0.30	61%
5 Year	1.20	-0.08	1.28	74%
10 Year	2.26	-0.07	2.33	89%
30 Year	3.28	-0.10	3.38	98%
UST Rates				
2 Year	0.46	0.00	0.46	
5 Year	1.63	-0.06	1.69	
10 Year	2.53	-0.08	2.61	
30 Year	3.36	-0.07	3.43	

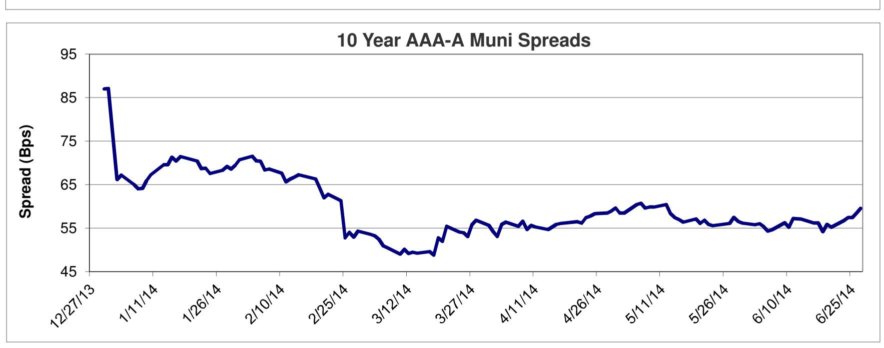
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$1.32	$5.60
Competitive	$0.68	$3.50
TOTAL	$2.00	$9.10
Municipal 30 Day Visible Supply ($ Bln)	$5.20	$9.99
Bloomberg Muni PICK Offerings ($ Bln)	$11.30	$13.17
Bond Buyer 20 Municipal G.O. Index	4.36%	4.36%

Select Economic Releases

Date	Event	Period	Survey	Prior
6/30	Pending Home Sales MoM	May	1.20%	0.40%
7/1	Markit US Manufacturing PMI	Jun F	57.50	57.50
7/1	ISM Manufacturing	Jun	55.80	55.40
7/1	Construction Spending MoM	May	0.50%	0.20%
7/2	MBA Mortgage Applications	27-Jun	--	-1.00%
7/2	ADP Employment Change	Jun	205K	179K
7/2	Factory Orders	May	-0.30%	0.70%
7/3	Change in Nonfarm Payrolls	Jun	215K	217K
7/3	Initial Jobless Claims	28-Jun	313K	312K
7/3	Unemployment Rate	Jun	6.30%	6.30%
7/3	Trade Balance	May	-$45.0B	-$47.2B







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.