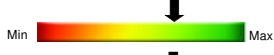



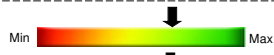

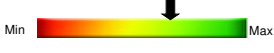

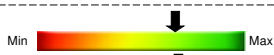




Trading Desk Commentary

Volatility in US Treasuries spiked to a 3-month high this week, according to the CBOE/CBOT 10-year U.S. Treasury Note Volatility Index. Traders returned from the Labor Day holiday to reports of cease-fire discussions in Ukraine. Yields rose as peace talks supposedly started, though the world is still awaiting an official announcement. The unexpected positive news from the east got the week started on a more upbeat path. As we wrote last week, the main event was Thursday at the European Central Bank's meeting in Frankfurt. The meeting carried an extra amount of weight given recent comments from Mario Draghi over deflationary fears in the Eurozone. Many believed, including us, that his comments set-up a higher probability of easing and/or rate cuts in the EU. The ECB took a less aggressive stand against the financial crisis in its early stages and now growth in the EU is trailing the US and UK. The harsh reality is the ECB does not have many more tools at its disposal. On Thursday, the ECB did cut its borrowing rates and announced new stimulus that will include an asset purchasing program. This announcement is in stark contrast to the US and UK central banks that are toying with tighter monetary policy. Now, the ECB's first asset-backed purchasing program will commence within a month of the US wrapping up its own. Draghi is also very clear that he believes that the central bank has now deployed all that it can to right the EU ship. If this more aggressive plan of attack fails, EU officials will be left scratching their heads on what to do next. EU bond prices hit all-time highs in the hours following the ECB's easing announcement. Low Eurozone yields continue to anchor US rates. But all is not upbeat in the US. Nonfarm Payrolls missed by a wide margin this morning and spurred a rally in US Treasuries, erasing some of the Ukraine-inspired sell-off. 'One step forward, one step back' progress is still plaguing the domestic recovery's momentum. While futures point to the first Fed rate hike in July 2015, we believe that may be overly optimistic. We think terrible labor numbers like those today will need to be a distant memory before Fed Chair Yellen will feel confident enough to raise rates.

Tax-exempts were well-insulated from this week's US Treasury chop. Munis are typically going to cue off of US Treasury moves given a normal supply environment and a quiet Muni-specific credit front. They tend to adjust with the goal of preserving normalized Muni-to-Treasury ratios. But today's environment does not provide a traditional backdrop. Supply is painfully low and 'normal' Muni-to-Treasury ratios are hard to discern given future tax uncertainty. As for supply, only about \$2bln came to market in the holiday-shortened week. Municipals simply can't justify weakening in lock-step with a UST sell-off when demand for Munis is far outstripping available supply. Tax-exempt trading in the secondary market was sparse this week as well. During today's UST rally, scale-makers couldn't point to enough Muni trading to warrant bumps of the same magnitude. This left Munis in a vacuum – quiet and somewhat impervious to the noise elsewhere. Next week, we are expecting a paltry \$2.5bln in new Muni issuance. But the demand in tax-exempts remains feverish. Lipper showed that Muni bond funds posted yet another powerful inflow (+\$495mln) this past week. Municipals are a hot commodity. We expect them to stay that way as long as we are range-bound in US Treasuries – or rallying in the event of more geopolitical tensions. It will take a significant upward move in US Treasury yields to spoil the party for Muni participants.

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			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	0.31	0.01	0.30	62%
5 Year	1.12	0.04	1.08	66%
10 Year	2.16	0.09	2.07	88%
30 Year	3.11	0.08	3.03	96%

UST Rates	Current Wk	Prior Wk
2 Year	0.50	0.49
5 Year	1.69	1.62
10 Year	2.45	2.34
30 Year	3.23	3.08

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.10	\$1.30
Competitive	\$0.42	\$0.62
TOTAL	\$2.52	\$1.92

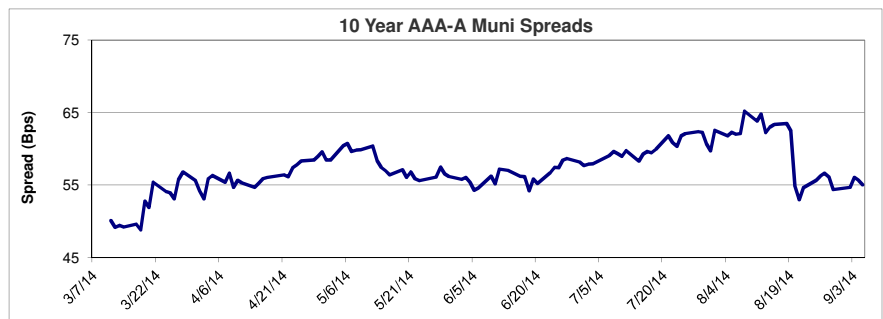
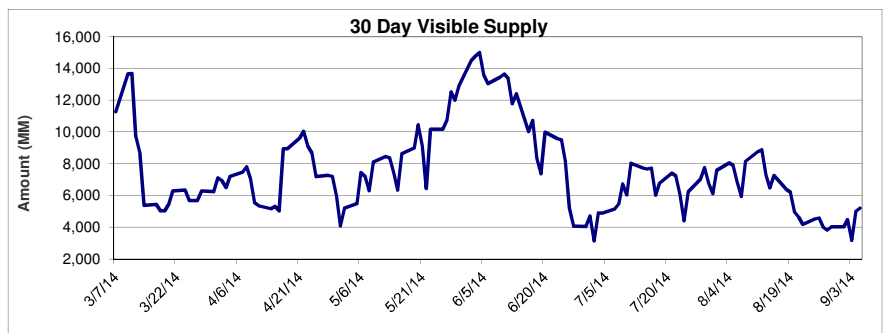
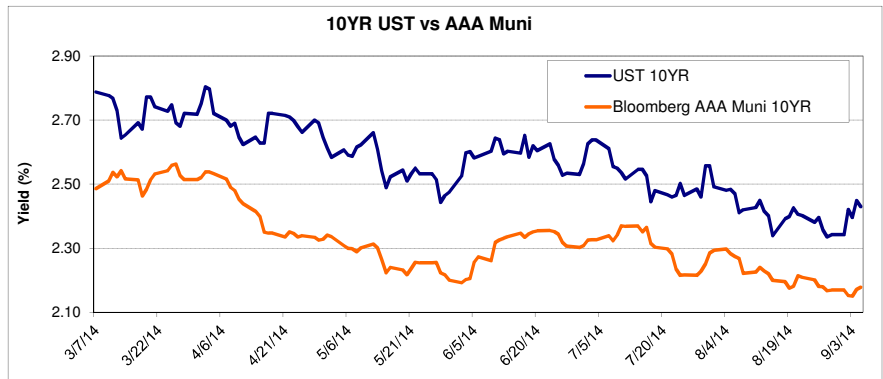
Municipal 30 Day Visible Supply (\$ Bln)	\$5.21	\$4.03
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Bloomberg Muni PICK Offerings (\$ Bln)	\$14.23	\$12.03
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Bond Buyer 20 Municipal G.O. Index	4.09%	4.17%
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Select Economic Releases

Date	Event	Period	Survey	Prior
9/10	MBA Mortgage Applications	5-Sep	--	0.20%
9/10	Wholesale Inventories MoM	Jul	0.50%	0.30%
9/11	Initial Jobless Claims	6-Sep	300K	302K
9/12	Retail Sales Advance MoM	Aug	0.50%	0.00%
9/12	Import Price Index MoM	Aug	-1.00%	-0.20%
9/12	Univ. of Michigan Confidence	Sep P	83.50	82.50



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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