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Weekly Trading Desk Update

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Trading Desk Commentary

A week of mixed data instilled a schizophrenic tone in US markets. On Wednesday, disappointments piled on top of more disappointments. US manufacturing data looked weak on the tails of discouraging Asian and European economic releases that printed earlier in the day. US Treasury yields plummeted resulting in one of the largest single-day rallies of the year. US yields offered the largest spread versus EU counterparts in 15 years, which enticed more overseas buyers into US debt. Also, tensions in the streets of Hong Kong added yet another region of unrest to a list that grows longer every week and yet another reason for investors to seek shelter. All of these factors snowballed into a powerful demand for quality mid-week. 10-Year US Treasury yields retreated towards the bottom region of their 90-day channel. Then, over the course of yesterday and today, bonds pared the majority of their Wednesday gains. It starred with yesterday's better-than-expected Initial Jobless Claims followed by today's strong Nonfarm number and the Unemployment Rate ticking down to 5.9%, its lowest point since 2008. The weakening trend would have likely been more pronounced if the underlying labor metrics looked a little better. Instead, the Participation Rate actually fell and Average Hourly Earnings failed to improve month-over-month. These are key data points for Fed Chair Yellen and the FOMC governors who are painfully aware that a quick look under the rug reveals a labor market that still needs significantly more time to return to full health. The 10-Year US Treasury note is now trading around 2.45% or roughly 10 basis points from the low end of the range. Major points of resistance to the upside exist around 2.65%, 2.85% and 3.00% (a major psychological level that we have tested only twice since 2011). 2.35% seems to be a point that yields have had trouble breaking through. It would likely take a major escalation on the geopolitical front (i.e. Ukraine, ISIS, Hong Kong) for the 10-Year to flirt with a breakthrough. We appear securely range-bound for the time being, but as we evaluate our duration positioning, it will be these thresholds we use to quantify potential volatility. We expect volatility to ramp up around each Fed meeting as the speculation machine kicks into a higher gear. But for now, the next time the Fed convenes is still a month away. In the meantime, investors will go from data release to data release while keeping a watchful eye overseas. These inputs will drive the majority of October trading.

The Bond Buyer 30-Day Visible Municipal supply now sits just above $8bln total, substantially less than the $13bln we saw a few weeks ago. Muni demand remains very robust, as evidenced by yet another week of inflows to Muni bond funds (+$408mln, according to Lipper). The demand for paper continues to push some buyers further down the credit curve or out the yield curve – whatever it takes to find bonds. We are staying disciplined in our approach to handling the supply dearth. Because demand is still so healthy, spreads on lesser-rated bonds have fallen dramatically this year. There have been times where an A rated revenue bond has offered roughly the same spread over the AAA scale as a high AA Limited Obligation bond. In other words, bonds of all sorts are trading at historically rich levels. Therefore, our purchases in recent weeks have skewed toward the higher end of the quality spectrum. We are essentially asking, 'If you are not getting compensated for the additional risk, why take it?' There are still opportunities for picking up incremental yield, but those opportunities are less frequent than a year ago. When we indentify bonds in the hospital, power, education, housing and lease revenue sectors we are still buying them, but only when the additional yield aligns with the additional risk. It is in times like these where managers can stray from their core vision and find themselves out of their comfort zone in the future based on today's decisions. Capital preservation is at the heart of our objective. Therefore, we believe it is critical to stay selective in today's environment to prevent owning riskier debt simply because it is available. It is a test of patience, but mandatory to protect our clients from undue risk.

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

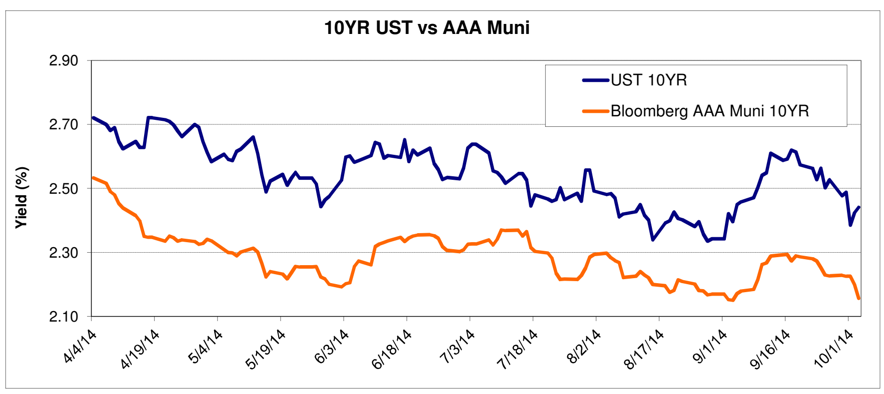
Market Overview

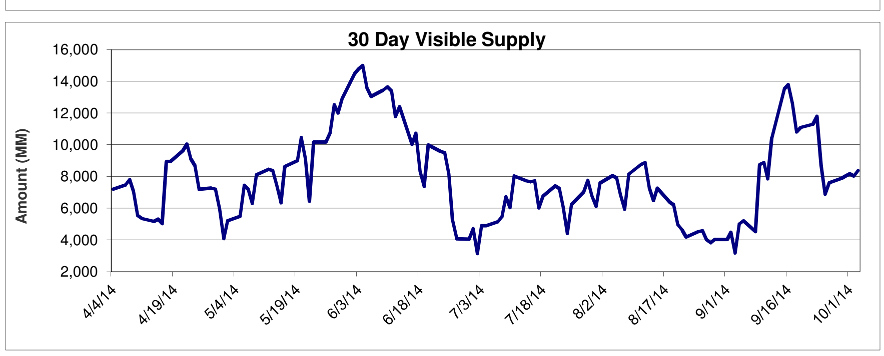
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.37	0.03	0.34	66%
5 Year	1.17	0.00	1.17	68%
10 Year	2.12	-0.07	2.19	87%
30 Year	3.04	-0.07	3.11	97%
UST Rates				
2 Year	0.56	-0.02	0.58	
5 Year	1.72	-0.07	1.79	
10 Year	2.43	-0.09	2.52	
30 Year	3.12	-0.09	3.21	

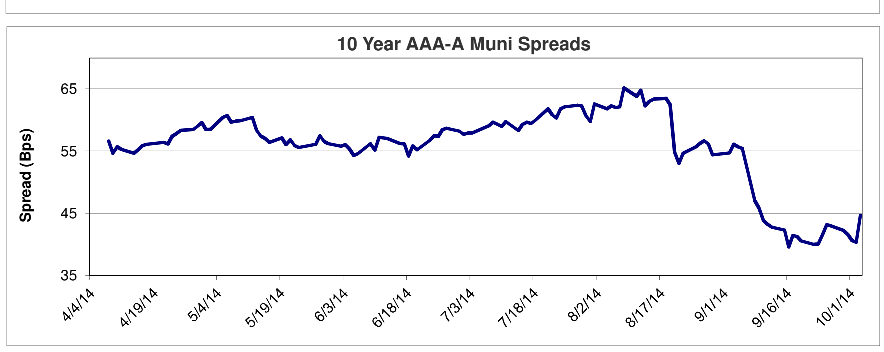
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$4.53	$4.39
Competitive	$0.62	$0.77
TOTAL	**$5.15**	**$5.16**
Municipal 30 Day Visible Supply ($ Bln)	**$8.38**	**$7.60**
Bloomberg Muni PICK Offerings ($ Bln)	**$12.21**	**$12.93**
Bond Buyer 20 Municipal G.O. Index	**4.11%**	**4.11%**

Select Economic Releases

Date	Event	Period	Survey	Prior
10/8	MBA Mortgage Applications	3-Oct	--	-0.20%
10/9	Initial Jobless Claims	4-Oct	294K	287K
10/9	Continuing Claims	27-Sep	2410K	2398K
10/9	Wholesale Inventories MoM	Aug	0.30%	0.10%
10/10	Import Price Index MoM	Sep	-0.70%	-0.90%
10/10	Monthly Budget Statement	Sep	$72.0B	$75.1B







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.