

## Trading Desk Commentary

This week was characterized by a slow upward bias in interest rates as anticipation built for today's all-important jobs report. Expectations were high for this morning's labor data, but unfortunately Nonfarm Payrolls missed their mark by a fairly wide margin. Initially the response was fairly muted. US Treasuries traded in a circle back to their pre-release levels, however by 9:00am US Treasuries were rallying across the curve. US Treasuries yields traded up through the 2.35% resistance that we have written about in recent weeks. To start the day, 10-year US Treasury yields were parked at 2.38% suggesting that a solid Nonfarm Payrolls number would close the gates behind 10-year yields and leave them entrenched in the 2.35-2.65% channel. But the data did not pave the way for a US Treasury reset. Instead, the 10-year retreated back below the 2.35% threshold and is currently trading at 2.31%. We have seen this on many occasions in the past 18 months. Overall, the market feels starved for guidance. It devours what little scraps the Fed throw its way (usually resulting in an overreaction), while the foreign dollars from the world's struggling economies flow into US debt to seize their relative value. Therefore, overseas demand for US Treasuries is keeping a lid on upward yield momentum, meaning interest rates are left bouncing violently within a very constrained trading range on Fed speculation. Each time a Fed meeting or important data point approaches, US Treasury yields trade up to a technical ceiling and ready themselves to break through should Fed policy or US activity provide the validation. So far the disappointments have far outweighed the happy surprises. As we all know, this has left us with stubbornly low yields despite the end of QE3 and the inevitable march towards a Fed rate hike. The bottom line: data like today's jobs report support ongoing accommodation. The recovery remains uneven and the effects of Europe and Asia's slowdowns are still not being fully felt.

The weaker US debt backdrop took a toll on Munis this week also. Munis lost ground everyday until today when the labor data firmed bonds up. Muni participants contended with a healthy supply calendar and took note of one of the largest Bond Buyer 30-day visible supply totals of the year. Issuers were forced to cut prices on the majority of this week's deals during order periods to keep pace with the US Treasury sell-off. Lesser-rated deals offering some spread over the AAA curve fared much better – some even saw their prices increase. Investors still prefer debt that offers incremental yield in this rate environment. A good example was the \$310mln (A2/A-) North Texas Tollway Authority revenue loan that offered roughly 70 basis points of extra yield versus the AAA scale in the 10-year range. That is significant when the 10 year AAA Muni scale is sitting below 2.20%. The deal was a riot, requiring a 9 basis point price bump in the face of orders outnumbering available bonds tenfold. Where buyers believe there is value, there is still a ravenous appetite for Munis. In the short-term, we would expect the space to stay on stable ground. Visible supply fell below \$9bln today, and next week we expect less than \$6bln of new tax-exempt issuance. That bodes well for Muniland. Furthermore, a huge, competitive State of California general obligation deal will lead the way next Wednesday. Demand for California paper is among the strongest inquiries in the country given their residents' high state income tax. That deal should do very well and set the tone for a more stable week in Municipals. Beyond the California deal, supply is spread out all over the place – sector-wise, geographically and from a credit rating perspective. There will be plenty to focus on in the primary. With Thanksgiving less than 3 weeks away, we could easily see supply wind down from here. Typically, December is a very light month for Muni issuance meaning those that want to get cash to work will need to hurry up and do it in November. It's hard to believe, but time in 2014 is running out.

## 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           | 0.38       | 0.02       | 0.36     | 78%         |
| 5 Year           | 1.15       | 0.03       | 1.12     | 73%         |
| 10 Year          | 2.17       | 0.10       | 2.07     | 94%         |
| 30 Year          | 3.07       | 0.06       | 3.01     | 101%        |
| <b>UST Rates</b> |            |            |          |             |
| 2 Year           | 0.49       | 0.01       | 0.48     |             |
| 5 Year           | 1.58       | -0.03      | 1.61     |             |
| 10 Year          | 2.30       | -0.02      | 2.32     |             |
| 30 Year          | 3.03       | -0.02      | 3.05     |             |

|   | Current Wk    | Prior Wk      |
|---|---------------|---------------|
| <b>Weekly Municipal Supply (\$ Bln)</b> |               |               |
| Negotiated                              | \$4.08        | \$5.52        |
| Competitive                             | \$1.57        | \$2.74        |
| <b>TOTAL</b>                            | <b>\$5.65</b> | <b>\$8.26</b> |

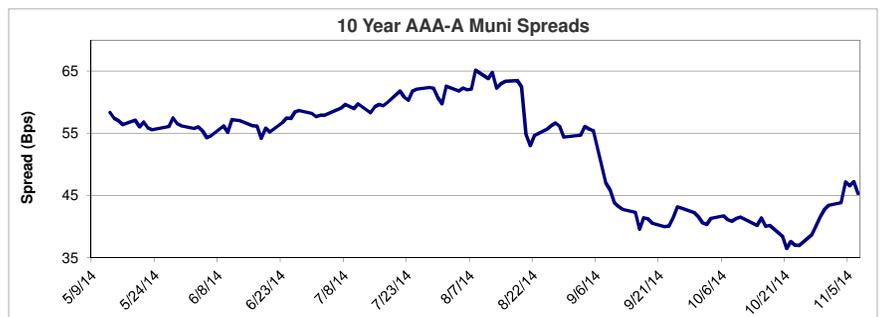
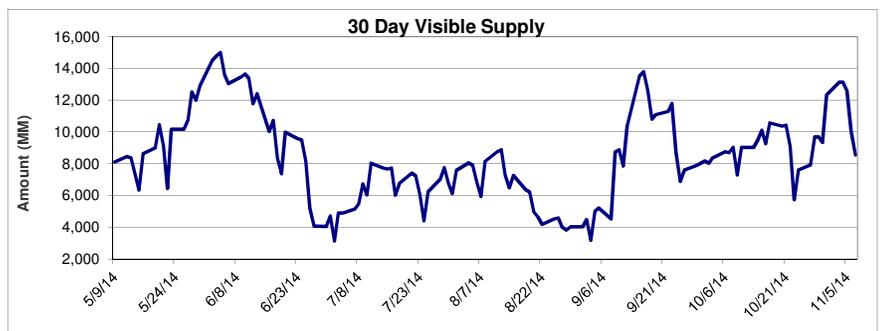
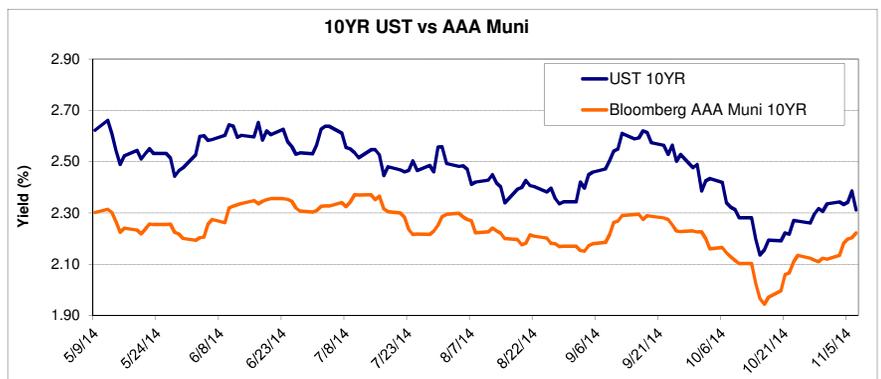
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|---|---------------|----------------|
| <b>Municipal 30 Day Visible Supply (\$ Bln)</b> | <b>\$8.56</b> | <b>\$12.35</b> |
|---|---------------|----------------|

|   |                |                |
|---|----------------|----------------|
| <b>Bloomberg Muni PICK Offerings (\$ Bln)</b> | <b>\$13.96</b> | <b>\$15.07</b> |
|---|----------------|----------------|

|   |              |              |
|---|--------------|--------------|
| <b>Bond Buyer 20 Municipal G.O. Index</b> | <b>3.98%</b> | <b>3.90%</b> |
|---|--------------|--------------|

### Select Economic Releases

| Date  | Event                        | Period | Survey    | Prior  |
|-------|------------------------------|--------|-----------|--------|
| 11/12 | MBA Mortgage Applications    | 7-Nov  | --        | -2.60% |
| 11/12 | Wholesale Inventories MoM    | Sep    | 0.20%     | 0.70%  |
| 11/13 | Initial Jobless Claims       | 8-Nov  | 280K      | 278K   |
| 11/13 | Monthly Budget Statement     | Oct    | -\$130.0B | --     |
| 11/14 | Retail Sales Advance MoM     | Oct    | 0.20%     | -0.30% |
| 11/14 | Import Price Index MoM       | Oct    | -1.60%    | -0.50% |
| 11/14 | Univ. of Michigan Confidence | Nov P  | 87.50     | 86.90  |



**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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