

Trading Desk Commentary

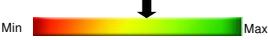
This week's headlines were dominated by Wednesday's Q1 GDP report followed by the Fed meeting on the same day. Analysts estimated that the U.S. economy expanded 1% during the first quarter; however, actual growth was feeble, increasing just 0.2%. Many will blame the tepid growth on the West Coast port shutdown and poor weather in February, however there are several underlying factors that limited growth and cannot simply be explained by bad weather. The rapid appreciation of the dollar has continued to negatively impact exports and the plunge in oil prices has led investment in mining, exploration, and wells to decline as much as 60% (annualized) in Q1.

Wednesday's Fed statement removed all calendar references and increased committee members' dependency on actual data. Fed Fund futures point to a December lift-off but September is also a very real possibility should economic releases surprise to the upside over the summer months. The FOMC admitted that Q1 GDP was weak but continued to stress that "transitory factors" are to blame for the softness and committee members are optimistic that a rebound will occur in Q2. Despite the overall soft statements and economic releases this week, Treasuries sold off. As of this note 5s are up 18 bps, 10s are up 21 bps and the long bond is up 22 bps on the week. We believe the Treasury weakness was triggered by a selloff in sovereign bonds, especially the 10-yr German bund (up 22 bps this week to yield 0.37%) and is not a trade that is factoring in current, underlying U.S. economic fundamentals. We believe this week's selloff was a spillover from global markets and that until domestic improvement occurs we are not expecting a significant near-term spike in rates.

Market participants were caught off guard when munis posted negative returns in April for the first time since 2004. What was forecasted to be a week of mild yield tightening due to the softer \$4.5B calendar was negated by the aggressive UST selloff. We saw credit spreads widen across the board and dealers cheapened most new issue balances in order to move bonds. It was another bidders market and we were active in the secondary, picking up some relative value in shorter maturities earlier in the week. Our primary market activity was subdued but we did participate in the \$30M Western VA Regional Jail Authority (Aa2) that sold Tuesday.

This week's muni news produced some searing headlines which included the \$115M LSU transaction which was canceled after state budget cuts to education became public, the continuing drought situation in CA, and Puerto Rico's government failing to pass tax reform measures which would have paved the way for essential liquidity. Next week's new issue calendar bounces back up to approximately \$8B. The increase in the primary calendar coupled with the Treasury selloff should produce volatility in munis, forcing us to remain constructive in our buying.

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		Neutral Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.57	0.06	0.51	97%
5 Year	1.34	0.09	1.25	89%
10 Year	2.16	0.16	2.00	102%
30 Year	3.08	0.18	2.90	109%

UST Rates			
2 Year	0.59	0.04	0.55
5 Year	1.50	0.15	1.36
10 Year	2.11	0.18	1.93
30 Year	2.82	0.19	2.63

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.70	\$2.90
Competitive	\$3.08	\$1.30
TOTAL	\$8.78	\$4.20

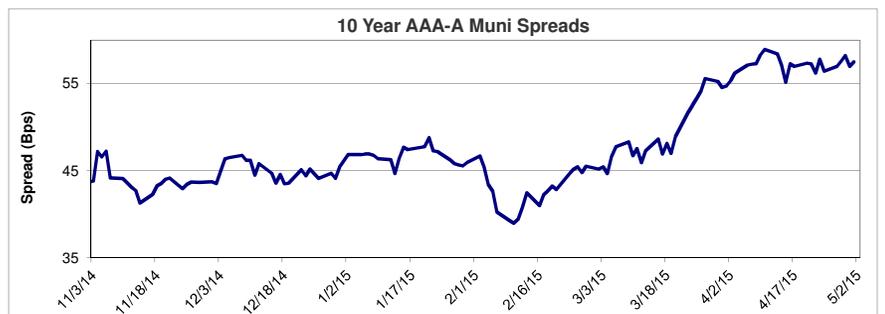
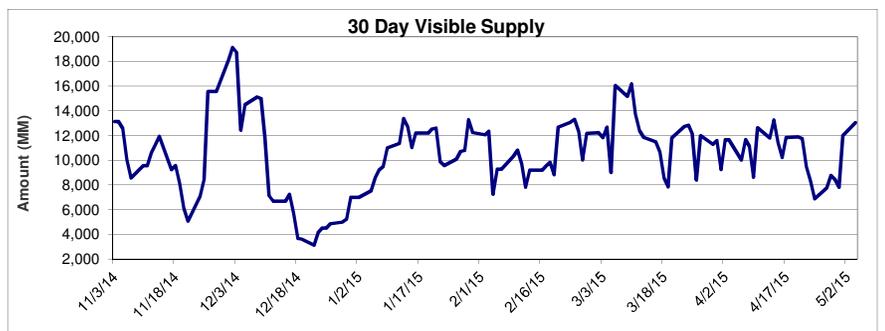
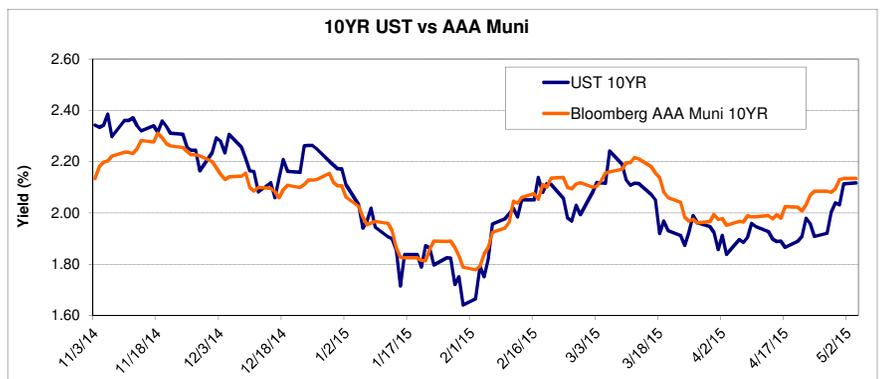
Municipal 30 Day Visible Supply (\$ Bln)	\$12.00	\$7.75
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Bloomberg Muni PICK Offerings (\$ Bln)	\$14.33	\$14.53
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Bond Buyer 20 Municipal G.O. Index	3.62%	3.52%
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Select Economic Releases

Date	Event	Period	Survey	Prior
5/4	Factory Orders	Mar	2.00%	0.20%
5/5	Trade Balance	Mar	-\$41.0B	-\$35.4B
5/5	ISM Non-Manf. Composite	Apr	56.2	56.50
5/6	MBA Mortgage Applications	5/1	--	-2.30%
5/6	ADP Employment Change	Apr	200K	189K
5/7	Initial Jobless Claims	5/2	277K	262K
5/8	Change in Nonfarm Payrolls	Apr	225K	126K
5/8	Unemployment Rate	Apr	5.40%	5.50%
5/8	Wholesale Inventories MoM	Mar	0.30%	0.30%



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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