

Trading Desk Commentary

Given the muted economic calendar and next week's FOMC meeting, not surprisingly, treasuries continue to trade range-bound with little direction. Mario Draghi of the ECB spoke Thursday and, as expected, stated his growing concern for the global economic growth slowdown and clearly conveyed his willingness to continue their European QE measures if necessary beyond September 2016. Also on Thursday, without warning the United States Treasury announced it would postpone the October 27th 2 Year note auction citing the debt ceiling constraints and the risk that they would not be able to settle trades if Congress does not take immediate action. Although there is obvious discussion about a potential shut down, this is no 2013 and it seems that the market has not priced in a situation where a shutdown actually happens. As we are sure there will be no shortage of political grandstanding as we get down to the "wire," there is a chance that the market will adjust to account for the situation where the debt ceiling is not raised. The White House stated clearly on Friday that there will be no negotiation from the administration and congress should resolve this matter, free of drama, immediately. Next week's US economic calendar is a bit more robust with a first look at Q3 GDP as well the meeting of the FOMC on Wednesday with no scheduled press conference as of this writing. We don't expect any official actions from the FOMC, but, as usual, markets are at the mercy of a data dependent fed, so small changes in official statement wording could absolutely produce large swings in volatility.

Over in the land of tax-exempt debt, it was an active week for both buyers and the street as the new issuance calendar unexpectedly fell to a measly \$3.5B pricing next week. Bid side was weak across the entire market going into the weekend as traders are expecting buyers to turn to the secondary market next week. Our focus deal of the week was the ~40M Virginia Housing Development Authority loan that priced Wednesday. This type of issuer is a great way for us to add incremental yield to portfolios given that these sector bonds usually trade cheaper and the approval of the credit under our stringent credit analysis allows us to feel comfortable with the exposure. For example, this Aa1/AA+ VA issuer was priced ~60 to the AAA MMD scale. Overall we continue to see the municipal asset class as an out-performer and, in particular, taxable issues of municipalities that have been performance stars over the past quarter. Given the fragmented, opaque nature of the taxable muni market, supply is often thin, though in our taxable strategies we use approved credits whenever possible to add value in this anemic rate environment. Puerto Rico and IL credits were in the spotlight this week as Moody's and Fitch downgraded Illinois GO debt to a BBB status and PR negotiations with creditors failed to make any progress. Rumblings of Puerto Rico government officials having talks with US congress and treasury officials are stirring up interesting skepticism and rumors that there may be legislation in the works to protect PR from creditors with the help of the US government. Although we don't have exposure to these issuers, these events sometimes establish precedents and have a lasting impact on the broader market and financing costs amongst municipal issuers. Next week's paltry new issuance calendar will force us, along with most buyers, to be focused on the secondary market for any trading. Take your pick this week whether the FOMC, the potential US government shutdown, or one of the many other events will be the weekly interest rate driver.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni		0 YRS - 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable		0 YRS - 5 YRS	Slightly Shorter Positioning Given Volatility
Intermediate Muni		0 YRS - 17 YRS	Neutral Positioning Given Global Weakness
Intermediate Taxable		0 YRS - 12 YRS	Neutral Positioning Given Global Weakness
Tactical Muni ETF			Neutral Duration, Overweight to CA
Core Plus ETF			Neutral Duration, Overweight to Treasuries
Tactical Opportunity ETF			Neutral Duration, Overweight Munis

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.55	0.00	0.55	86%
5 Year	1.21	0.01	1.20	85%
10 Year	2.04	0.02	2.02	98%
30 Year	3.07	0.00	3.07	106%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.64	0.03	0.61
5 Year	1.42	0.06	1.35
10 Year	2.09	0.05	2.03
30 Year	2.90	0.02	2.88

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.77	\$4.79
Competitive	\$1.40	\$2.48
TOTAL	\$4.17	\$7.27

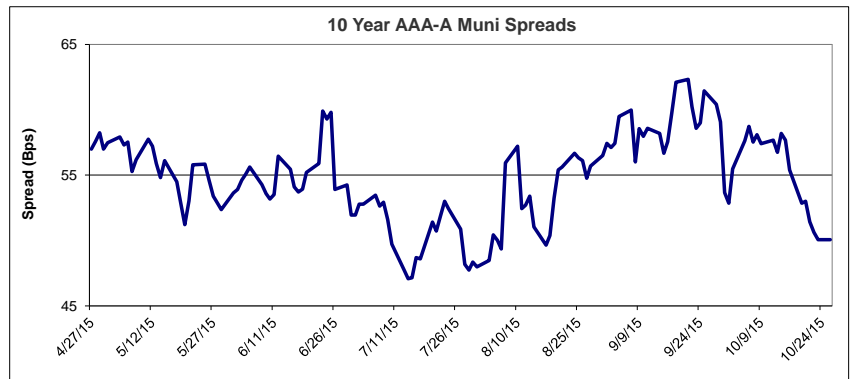
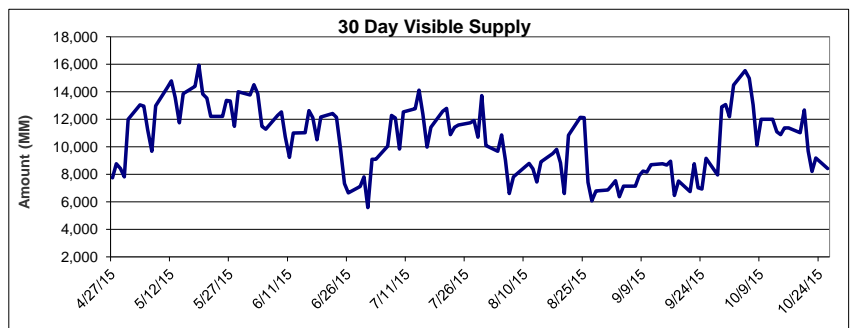
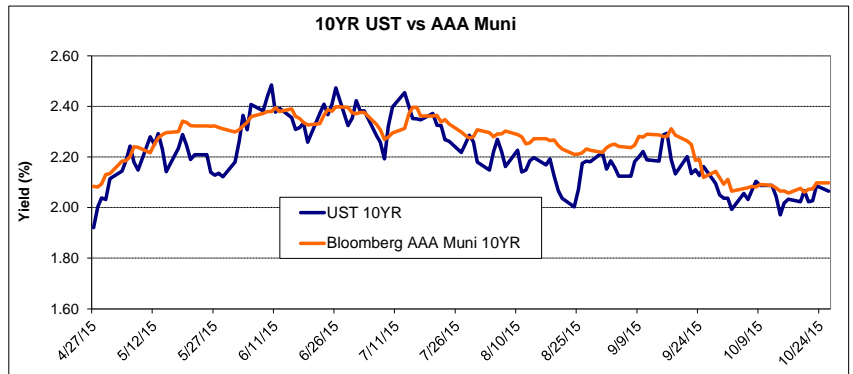
Municipal 30 Day Visible Supply (\$ Bln)	Current Wk	Prior Wk
	\$9.19	\$11.37

Bloomberg Muni PICK Offerings (\$ Bln)	Current Wk	Prior Wk
	\$13.41	\$12.43

Bond Buyer 20 Municipal G.O. Index	Current Wk	Prior Wk
	3.67%	3.68%

Select Economic Releases

Date	Event	Period	Survey	Prior
10/26	New Home Sales	Sep	549k	552k
10/27	Consumer Confidence Index	Oct	102.90	103.00
10/27	Durable Goods Orders	Sep	-1.50%	-2.00%
10/28	FOMC Rate Decision (Upper Bound)	28-Oct	0.25%	0.25%
10/28	MBA Mortgage Applications	23-Oct	--	11.80%
10/29	Initial Jobless Claims	24-Oct	265k	259k
10/29	GDP Annualized QoQ	3Q A	1.50%	3.90%
10/30	U. of Mich. Sentiment	Oct F	92.50	92.10
10/30	Personal Income	Sep	0.20%	0.30%
10/30	Personal Spending	Sep	0.20%	0.40%
10/30	Chicago Purchasing Manager	Oct	49.40	48.70



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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