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U.S. Struggles Continue As Recession Goes Global

Declining consumer spending, rising unemployment, and the tumultuous financial markets led the Federal Reserve Board's Open Market Committee to cut the Fed Funds Rate another 50 basis points to 1.00% on October 29th. The last time the benchmark rate was set this low was June 2004. As worldwide markets now experience pains similar to those in the United States, the reality of a global recession is upon us. The Fed continues to warn of the downside risks to the U.S.'s own growth and maintains that our capital market struggles will take time to work out.

Nonfarm payroll employment fell 0.4% in October, raising the unemployment rate to 6.5%, the highest level in 14 years. The rate is forecasted to pass 7.0% by early next year; however, the most pessimistic predictions have unemployment topping out at 10.0%+ before a turnaround can be expected . Unemployment in this range would be at its highest in almost three decades. *Figure 1* illustrates the rise in unemployment in the U.S. in 2008.

The surge in unemployment has reduced demand expectations, and diminished the threat of U.S. inflation. Energy prices have tumbled because of the global slowdown and contributed to the inflation pull-back. This reduction of inflationary pressures provides the Federal Reserve with the flexibility necessary to cut interest rates should additional stimulus be needed. If we see a .50% level on Federal Funds, the target rate will be at its lowest level ever.

On November 4th the United States elected Barack Obama to be the next President. The stock market experienced its biggest Election Day rally ever, only to be brought back down to reality as new, negative economic data took

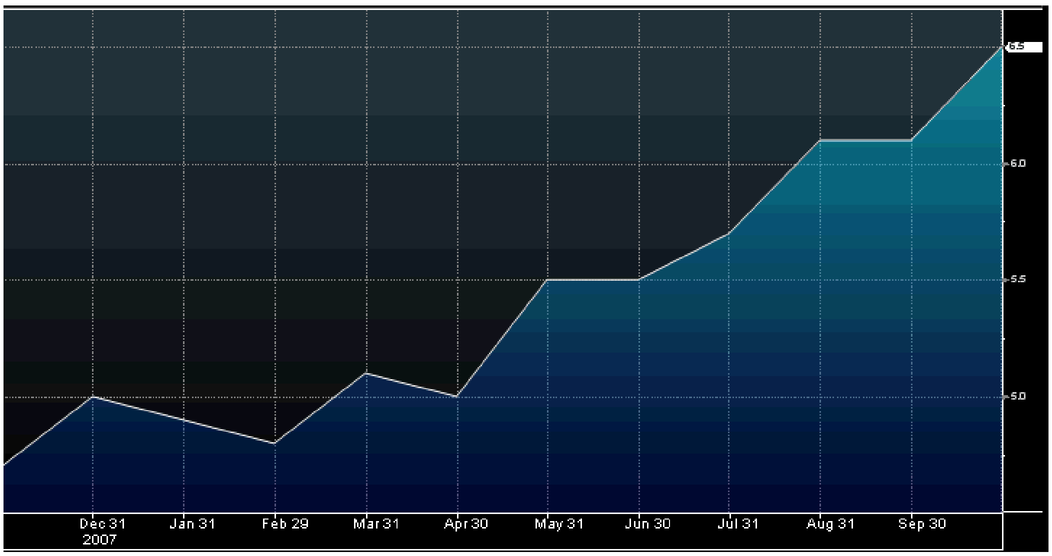

Figure 1. *Unemployment Rate Levels in 2008 through October 31st.* *Source: Bloomberg*

Highlights:

- REALITY OF A GLOBAL RECESSION SETTING IN, ECONOMIC DOWNTURN EXPECTED TO WORSEN
- FEDERAL OPEN MARKET COMMITTEE CUT FED FUNDS RATE 50 BASIS POINTS ON OCT. 29TH
- CAPRIN MAINTAINING TARGET DURATION CLOSE TO 5 YEARS, NEUTRAL TO LEHMAN 7-YEAR MUNICIPAL BOND INDEX
- CAPRIN FURTHER EMPHASIZING LIQUID, HIGH-QUALITY POSITIONS AMIDST VOLATILE MARKET ENVIRONMENT

"Whether Obama can inspire a meaningful shift in market sentiment and an economic recovery remains to be seen, come January, Barack Obama will inherit the most challenging economy since the Great Depression."

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over the financial headlines. In his first press conference, President-Elect Obama underlined the importance of another stimulus package for the middle class and emphasized that his first term will be heavily focused on the current economic downturn. Whether Obama can instill a meaningful shift in market sentiment and an economic recovery remains to be seen, but come January, Barack Obama will inherit the most challenging economy since the Great Depression.

Caprin Strategy

On a recent historical basis, municipal bond yields offered throughout all maturities continue to provide a yield premium and maintain an attractive advantage relative to taxable bonds as the Federal Reserve continues to lower rates. Caprin continues to emphasize high quality, liquid bonds in our portfolios, and these are invested to achieve a target duration that is neutral relative to our benchmark at approximately 5 years. Portfolio positions are targeted relatively evenly throughout maturities up to approximately 15 years, forming a "laddered" structure. This strategy allows Caprin's portfolio managers to lower risk in the midst of the bond market's volatile state and provide the freedom to capitalize on opportunities to add value for clients.

Figure 2. *Dow Jones Industrial Average in 2008 through October 31st* *Source: Bloomberg*

These opportunities surface during times when the market reacts to shifting policy mandates or new information regarding our collective economic future. As portfolio managers, we evaluate the validity of these reactions and formulate investment strategies to capitalize on pricing anomalies for bonds we deem attractive. By focusing exclusively on bonds, we can effect in a matter of minutes transactions that seek to benefit client portfolios over an extended holding period. During these difficult times, the high quality standards of our capital preservation and income objectives continue to form the foundation of our policymaking and execution for your portfolios.