

Trading Desk Commentary

As mentioned in our previous update, a weak nonfarm payroll number released on Good Friday fueled a strong rally and a “flight-to-safety” bid in bond markets, while the U.S. stock exchanges were closed in observance of the holiday. The number came as a surprise to investors who were expecting the labor market’s winning streak to continue through March. Because the U.S. stock exchanges were closed, the reaction to the disappointing data in equities was put on hold until this past Monday. Unsurprisingly, stocks tumbled last Monday at the open and would fall further by mid-week on news of an unsuccessful bond auction in Spain and renewed worries that the recent action taken by European finance ministers has been insufficient to contain the debt crisis. The constant see-sawing across the Atlantic continues to be an exhausting scenario to monitor and forecast – and also one with no end in sight. We expect Euro news to maintain its position as a primary volatility driver in 2Q.

The first quarter of 2012 was largely characterized by a rosier U.S. economic outlook and a strong “risk-on” trade. Bond participants looked to higher-yielding sectors (in both Munis and Taxables), a natural reaction to an improving economic landscape. In just the past two weeks, this exuberance has seemingly stalled and the demand for safer havens appears to be gathering momentum. Munis could benefit from a transition to a “risk-off” bias spurred by the U.S. economy cooling and global macro concerns. As of late, tax-exempts have underperformed USTs, creating some of the most attractive Muni-to-UST ratios in recent months. Demand still feels strong enough to manage the \$5-7bln weekly new issuance flow we are currently seeing. Last week, the (A1/A-) \$1.3bln California GO deal was the street’s primary focus, representing almost 20% of the week’s supply. Though the deal was modestly cheapened (2-5 bps), it was successfully distributed by week’s end along with a heavily oversubscribed (Aa1/AAA/AAA) \$800mln NYC TFA deal (the second largest deal of the week). This week’s \$7.5bln calendar is healthy yet again, populated by a broad range of names: (Aa1AA/AA) \$950mln Pennsylvania GO, (A2/A/A) \$557mln New York Metropolitan Transportation Authority (A1/A+/A+) \$491mln Atlanta GA Airports, (Aa1/AA+/AA+) \$352mln Ascension Health, and (Aa1/AA+/AA+) \$320mln Va College Building Authority. Short of any jarring news out of Europe, these type of weeks are great opportunities for affirming current yields and credit spreads. While we expect another successful week in the Muni primary, we will be closely monitoring the successes of the week’s larger deals.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.33	-0.03	0.36	122%
5 Year	0.87	-0.09	0.96	102%
10 Year	1.97	-0.15	2.12	99%
30 Year	3.32	-0.10	3.42	106%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.27	-0.05	0.32
5 Year	0.85	-0.05	0.90
10 Year	1.99	-0.06	2.05
30 Year	3.14	-0.07	3.21

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.07	\$6.22
Competitive	\$2.27	\$1.52
TOTAL	\$7.34	\$7.74

Municipal 30 Day Visible Supply (\$ Bln)	\$11.43	\$11.03
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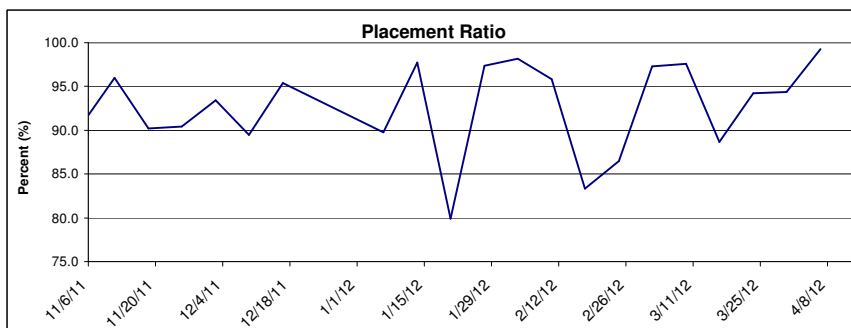
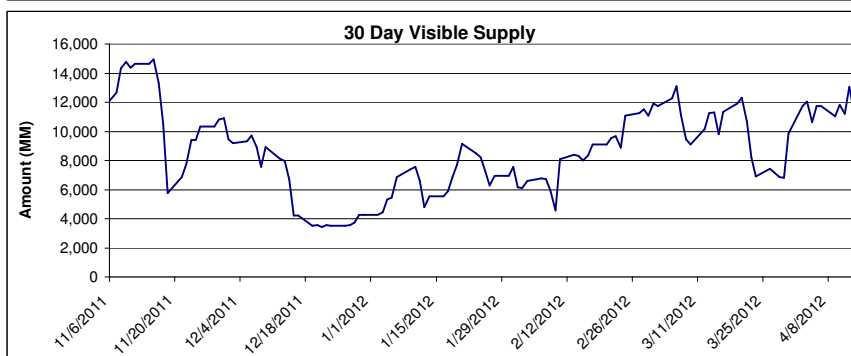
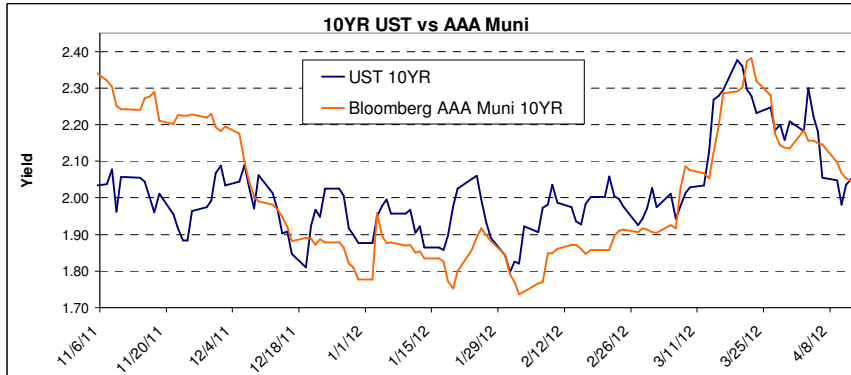
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.61	\$4.03
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Muni Placement Ratio (New Issues)	n/a	99.30%
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Bond Buyer 20 Municipal G.O. Index	3.97%	4.08%
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Select Economic Releases

Date	Event	Period	Survey	Prior
4/16	Empire Manufacturing	APR	18.0	20.2
4/16	Advance Retail Sales	MAR	0.30%	1.10%
4/17	Housing Starts	MAR	705K	698K
4/17	Building Permits	MAR	710K	717K
4/17	Industrial Production	MAR	0.30%	0.00%
4/18	MBA Mortgage Applications	13-Apr	--	-2.4%
4/19	Initial Jobless Claims	14-Apr	368K	380K
4/19	Continuing Claims	7-Apr	3300K	3251K
4/19	Philadelphia Fed.	APR	12.0	12.5
4/19	Existing Home Sales	MAR	4.62M	4.59M



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.

Placement Ratio - The amount of bonds sold by underwriting syndicates each week as a percentage of the amount issued that week by issuers selling \$1,000,000 par value or more of securities. The ratio published by The Bond Buyer, helps gauge the demand for municipal bonds in the marketplace.

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, and the placement ratio 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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