

## Trading Desk Commentary

Only one month ago, Muni yields were touching their highest points of 2012 following a long parade of stronger economic indicators and less apocalyptic news from the Eurozone. But for the third Spring running, European concerns have re-inflamed and the demand for quality assets has gathered considerable strength. The Dow's worst and second-worst weekly performance of 2012 have both occurred over the past month. The 10Yr AAA MMD yield spot is 45bps lower today than its mid-March high. Our market momentum modeling is showing that participants' focus is progressively shifting away from higher-yielding, riskier bond sectors and toward safer, higher-rated alternatives, a reversal to the "risk on" trend earlier in the year. Much of this shift can be attributed to the global macro outlook deteriorating. China's long-term growth prospects have been revised significantly downward while Spain and Italy seem determined to earn the rights to the "Next Greece" title. Spain and Italy's 5Yr CDS spreads have both risen dramatically in recent weeks, reflecting investors' skepticism that each will resolve their ballooning deficits by staying on their current paths.

Today's Muni investors are faced with a staggering task. Significant time and energy must be dedicated to monitoring developments in Europe, Asia, and the Middle East in order to effectively manage a domestic Municipal bond portfolio. The direct effect that global macro issues have on U.S. Muni yields and performance (in response to ebbs and flows in the demand for quality) speaks to the rapid globalization our financial markets have seen in recent decades. Muni technicals appear to be in a transition period as well. Forward Muni supply fell dramatically last week, leaving a much leaner 30-day calendar than what we have grown accustomed to since February. Issuance typically tails off a bit this time of year, but doing so just as demand seems to be strengthening leaves us with a constructive tax-exempt outlook over the near-term. As it stands, it seems demand could easily outstrip the amount of available bonds in the coming days and weeks, barring a shock in USTs. Muni-to-UST ratios are +100% across the entirety of the curve and Lipper just reported yet another week of net inflows into Muni bond funds. Right now, it's tough to find the banana peel that could threaten Munis' firm footing in the coming week.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	-0.02	0.33	115%
5 Year	0.83	-0.04	0.87	99%
10 Year	1.88	-0.09	1.97	96%
30 Year	3.28	-0.04	3.32	105%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.27	0.00	0.27
5 Year	0.84	-0.01	0.85
10 Year	1.96	-0.03	1.99
30 Year	3.12	-0.02	3.14

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$3.36	\$5.07
Competitive	\$1.55	\$2.27
<b>TOTAL</b>	<b>\$4.91</b>	<b>\$7.34</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$7.85</b>	<b>\$11.43</b>
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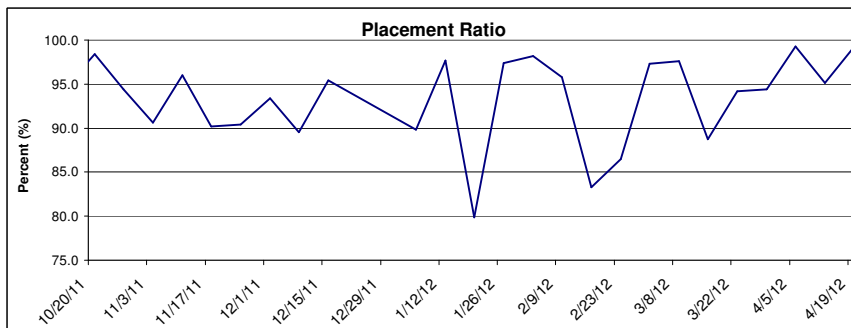
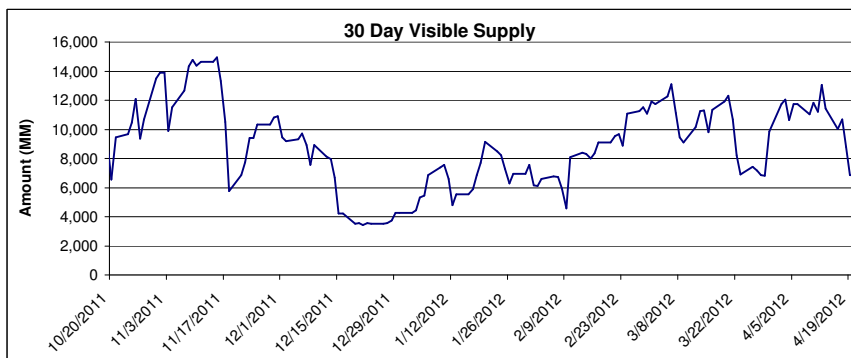
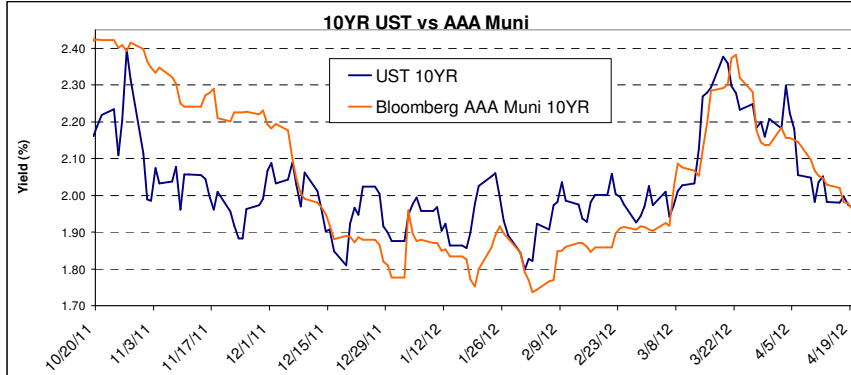
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.65</b>	<b>\$11.61</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>99.30%</b>	<b>95.10%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.90%</b>	<b>3.97%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
4/24	Consumer Confidence	APR	69.5	70.2
4/24	New Home Sales	MAR	318K	313K
4/25	MBA Mortgage Applications	20-Apr	-	6.90%
4/25	Durable Goods Orders	MAR	-1.50%	2.20%
4/25	FOMC Rate Decision	25-Apr	0.25%	0.25%
4/26	Initial Jobless Claims	21-Apr	375K	386K
4/26	Continuing Claims	14-Apr	3280K	3297K
4/26	Pending Home Sales MoM	MAR	1.10%	-0.50%
4/27	GDP QoQ (Annualized)	1Q A	2.50%	3.00%
4/27	Core PCE QoQ	1Q A	2.10%	1.30%
4/27	U. of Michigan Confidence	APR F	75.7	75.7



**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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