

Trading Desk Commentary

The week began with JP Morgan's hedging blunder and Europe anxieties plaguing global markets. US Treasury yields were driven to all-time lows by the persistent demand for safe-haven assets. Not even the much-hyped Facebook IPO could generate enough excitement for equity markets to hold on to their early morning gains. The prevailing tone has turned pessimistic, in terms of Europe's outlook over the next few years and the US economy's ability to gain traction. Yesterday's Bloomberg US Weekly Consumer Comfort Index was indicative of a collective sense of uncertainty. The stat touched its lowest point since January and has been in a month-long freefall (closely coinciding with the heightened risks in Europe). Investors are skittish and May's risk-off trade has erased almost all of the Dow's gains in 2012. Without measurable progress in Europe, equities will have a tough time re-establishing the positive trend from 1Q, and US Treasuries will struggle to push away from their all-time low yields.

Munis have captured most of the US Treasury markets performance in recent weeks, but are still offering attractive ratios that are encouraging crossover purchasing. Ratios and suppressed supply have kept Munis tightly handcuffed to US Treasury movements. Next week, the Muni market faces its largest weekly supply volume in months. Recently, the market has lacked that highly-recognizable AAA issuer to provide leadership and price discovery. Though next week does not offer a large, ideal candidate, there are a few deals that should provide a little insight. \$750mln (Aa2/AA/AA) New York City NY GO, \$350mln (Aa1/AA+) St of Massachusetts GO, and \$240mln (Aaa/AAA) Virginia Resource Auth Infrastructure revenue bonds to name a few. Still, if Treasuries respond one way or another to developments overseas, supply fundamentals will mean a whole lot less.

Early this week, we went underweight the State of California in our Muni ETF strategy. We have grown concerned over the state's inability to rein in their expanding budget deficit, which has now climbed north of \$16bln. Gov. Jerry Brown has failed to gain support for his far-reaching cuts to California's education and healthcare systems that could help shore up the shortfall. He intends to put the budget cutting on ballots later this year, with hope that California will make the necessary sacrifices and vote for the large spending cuts. If France and Greece's recent ballots are any indication, Brown should not hold his breath.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	103%
5 Year	0.76	0.00	0.76	101%
10 Year	1.78	0.03	1.75	104%
30 Year	3.09	0.01	3.08	110%

UST Rates

2 Year	0.30	0.04	0.26
5 Year	0.75	0.00	0.75
10 Year	1.71	-0.13	1.84
30 Year	2.80	-0.21	3.01

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.40	\$5.08
Competitive	\$2.71	\$1.65
TOTAL	\$9.11	\$5.85

Municipal 30 Day Visible Supply (\$ Bln)	\$11.38	\$9.18
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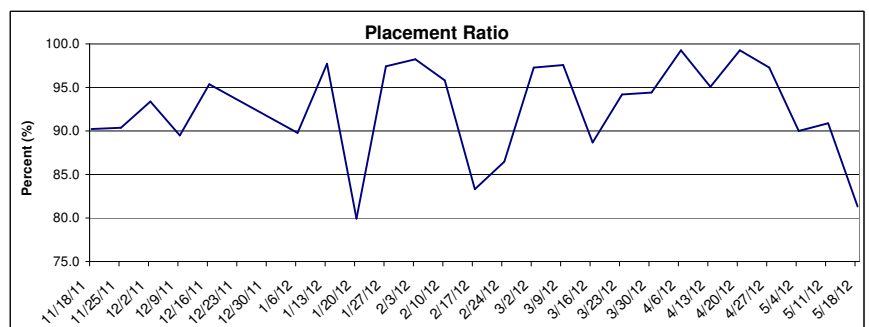
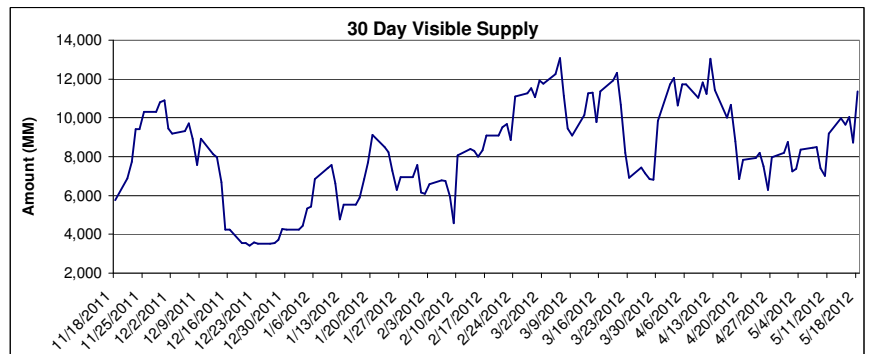
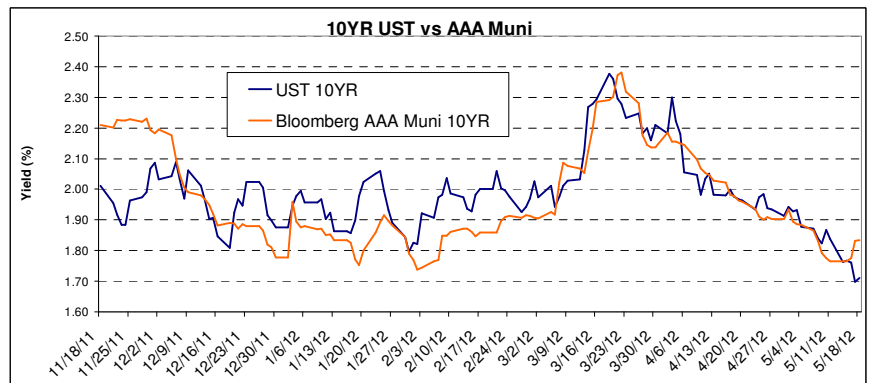
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.83	\$12.39
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Muni Placement Ratio (New Issues)	81.30%	90.90%
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Bond Buyer 20 Municipal G.O. Index	3.75%	3.71%
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Select Economic Releases

Date	Event	Period	Survey	Prior
5/22	Richmond Fed Manufact.	MAY	11	14
5/22	Existing Home Sales	APR	4.62M	4.48M
5/23	MBA Mortgage Applications	18-May	--	9.20%
5/23	House Price Index MoM	MAR	0.30%	0.30%
5/23	New Home Sales	APR	335K	328K
5/24	Durable Goods Orders	APR	0.40%	-4.20%
5/24	Durables Ex Transportation	APR	0.80%	-1.10%
5/24	Initial Jobless Claims	19-May	370K	370K
5/24	Continuing Claims	12-May	3250K	3265K
5/25	U. of Michigan Confidence	MAY F	77.8	77.8



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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