

Trading Desk Commentary

Risk off was certainly the theme of the week for the global markets as participants fled into only the safest of assets, driving US Treasuries to record low yields across much of the curve. The exodus was led by the discouraging euro-zone news earlier in the week of undercapitalization amongst Spanish banks, and apparent lack of support for Greek austerity as shown in recent polling for the country's upcoming elections. It was then further exasperated by a wave of lower than expected domestic economic indicators released today showing that the U.S. may still be faced with a long recovery road ahead.

As the 10YR Treasury tightened in by almost 30 bps on the week, the Muni market seemed to be in somewhat of a daze, with yields moving lower by less than 10 bps. Market participants are almost unanimously pointing to signs of growing supply as the reason for the recent underperformance, and as today's \$12Bln Bond Buyer 30-Day Visible number would indicate that supply is not far off. As of this morning, we are expecting to see a total of \$9.6Bln in new issues price next week alone, and judging from the concessions that had to be built into this week's deals to keep distribution from stagnating, an even further dislocation of Munis to Treasuries may be seen. It is worth noting though, that the recent underperformance has left Munis at relatively attractive ratio levels (120% in 10 years) not seen since late '11, and despite low absolute yields one could reasonably expect to see cross-over buyers begin to engage if these ratios trend even higher.

Next week's calendar brings a wide variety of quality and geography for investors to consider. Leading the way will be \$1.1Bln (MIG-1/SP+) Los Angeles Rev Anticipation Notes, \$844Mln (NR/AAA) Chicago - Met Pier and Expo Auth Revs, and \$500MM (Baa1/BBB) Puerto Rico Public Building Authorities. We will be paying close attention to the pricing and distribution of these deals to see just how accommodative dealers will be as they look to keep the flow of paper moving in an orderly fashion, as further supply pressure and already low rates could bring things to a screeching halt and force Muni yields up quickly.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.32	-0.01	0.33	128%
5 Year	0.73	-0.03	0.76	118%
10 Year	1.75	-0.08	1.83	121%
30 Year	3.04	-0.10	3.14	121%

UST Rates

2 Year	0.25	-0.04	0.29
5 Year	0.62	-0.14	0.76
10 Year	1.45	-0.30	1.75
30 Year	2.52	-0.32	2.84

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$7.53	\$2.91
Competitive	\$2.08	\$1.71
TOTAL	\$9.61	\$4.62

Municipal 30 Day Visible Supply (\$ Bln)	\$12.01	\$6.68
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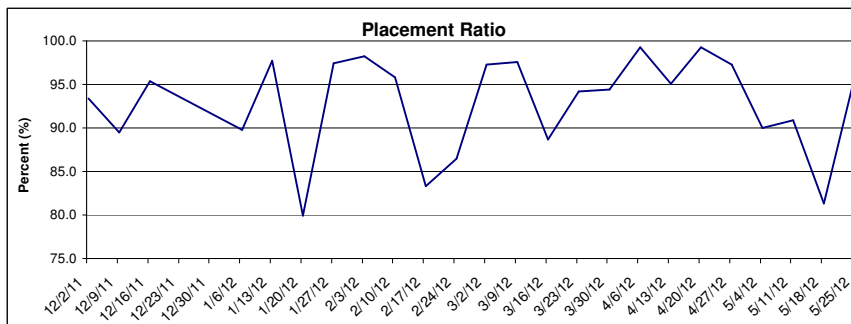
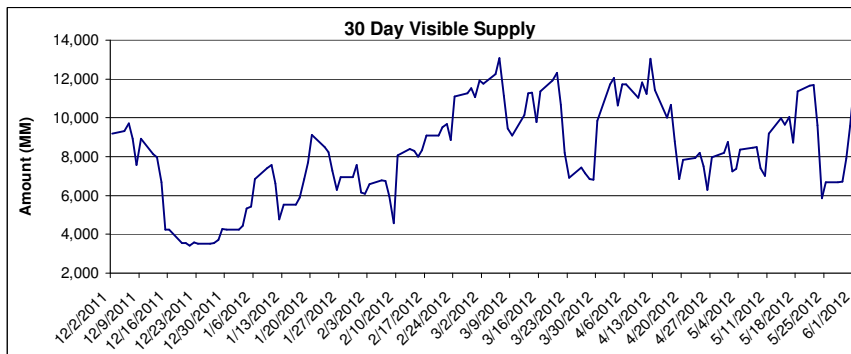
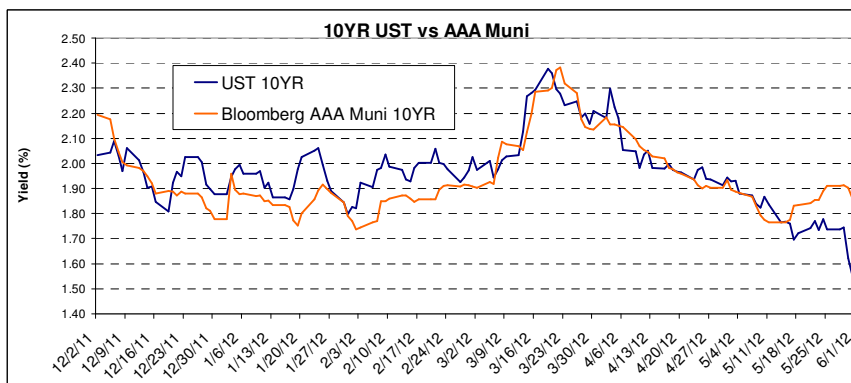
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.54	\$13.12
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Muni Placement Ratio (New Issues)	n/a	95.80%
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Bond Buyer 20 Municipal G.O. Index	3.77%	3.80%
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Select Economic Releases

Date	Event	Period	Survey	Prior
6/4	Factory Orders	APR	0.2%	-1.5%
6/5	ISM Non-Manf. Composite	MAY	53.5	53.5
6/6	MBA Mortgage Applications	1-Jun	--	-1.3%
6/6	Fed's Beige Book			
6/7	Initial Jobless Claims	2-Jun	380K	383K
6/7	Continuing Claims	26-May	3240K	3242K
6/8	Trade Balance	APR	-\$49.5B	-\$51.8B
6/8	Wholesale Inventories	APR	0.50%	0.30%



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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