

## Trading Desk Commentary

A fairly benign market for the first four days of the week gave way to a more tumultuous tone today. For the most part, recent developments had been encouraging a risk-on bias in trading activity via solid earnings results, a quiet European newswire, and some tolerable US economic releases (especially from the housing sector). That is, until today when European concerns re-emerged based on the lack of progress shown by the European Union's summit. This past spring, Spain dethroned Greece as the Euro region's primary threat to stability. Spain's banking system went through in-depth stress testing last month and showed they would need a significant injection of cash to recapitalize their major lenders. Since then, neither a viable plan nor request for bailout funds has been submitted leaving market participants scratching their heads and growing increasingly anxious. The EU summit failed to provide additional color on how the Euro region plans to address the growing Spanish threat – and equities paid the price. Additionally, both Microsoft and GE posted disappointing earnings this morning, adding their names to the list alongside Intel and IBM for missing 3Q estimates. In response, US Treasury yields dropped sharply as the risk momentum seen earlier in the week came to a screeching halt.

Municipals felt fairly insulated from the movements in the US Treasury market. This was somewhat surprising given the very healthy supply calendar with which Muni participants were forced to contend. For a month now, the weekly supply volume has floated between \$7-9bln, a marked step up from the \$2-4bln offered up each week for most of the summer. However, much of the new issuance has skewed towards AA and lower rated paper that is offering up a few attractive incentives for fixed income investors: 1) a yield boost while AAA yields remain stubbornly low; 2) relative value versus several taxable alternatives. This week's issuance went as smoothly as it has since mid-September (which is to say, very smoothly). Munis swayed a bit as US Treasuries fluctuated more noticeably, but overall did an admirable job of holding their ground. Next week is setting up to look much like the previous four weeks. We are expecting roughly \$7.5bln in supply; however, \$1.5bln of that number will be accounted for by the large (Aa3/AA-) Colorado Catholic Health Initiatives taxable deal. Removing this deal from the total leaves next week's traditional tax-exempt supply looking very manageable. One wonders if this may be the beginning of a slow decline in weekly issuance as we approach November and the holiday season. It is worth noting that Muni bond fund flows remained strong yet again this week (almost +\$700mln, according to Lipper). This powerful indicator continues to paint a picture of vibrant demand and short-term stability in the Municipal space. Obviously US Treasuries will have some say in Muni tone through year-end but Muni-specific fundamentals leave us feeling constructive towards the Muni market.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	103%
5 Year	0.67	0.04	0.63	89%
10 Year	1.74	0.05	1.69	98%
30 Year	2.86	0.02	2.84	98%
UST Rates				
2 Year	0.29	0.03	0.26	
5 Year	0.75	0.09	0.66	
10 Year	1.77	0.11	1.66	
30 Year	2.93	0.10	2.83	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$5.92	\$5.75
Competitive	\$1.71	\$1.63
<b>TOTAL</b>	<b>\$7.63</b>	<b>\$7.38</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$9.07</b>	<b>\$11.09</b>
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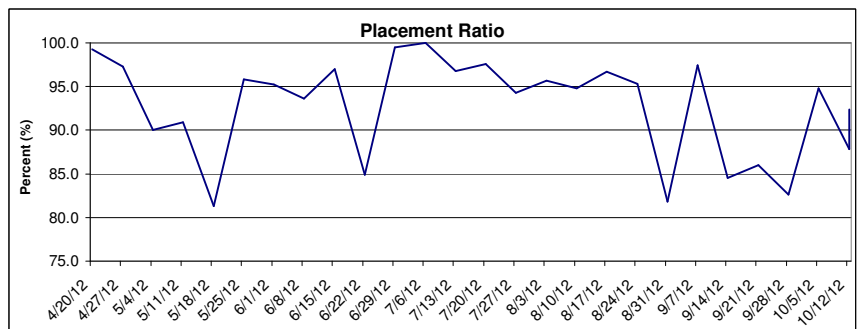
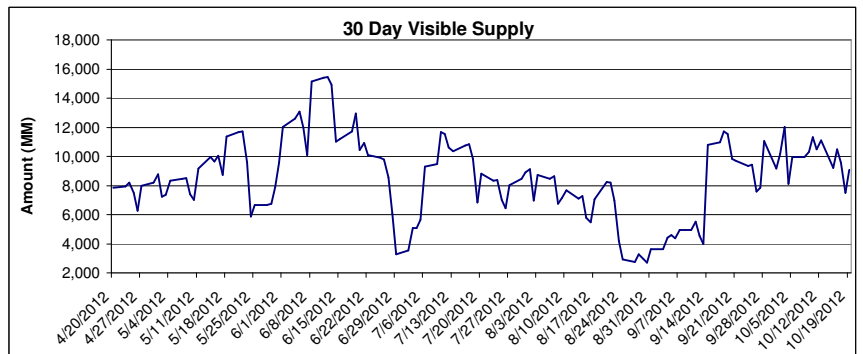
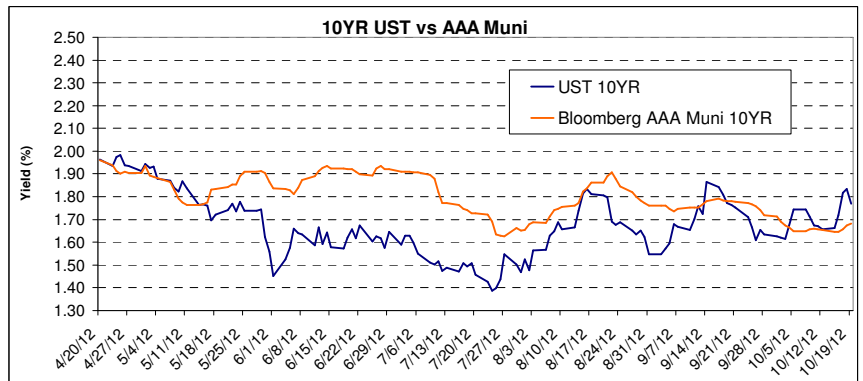
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.55</b>	<b>\$11.01</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>87.8%</b>	<b>92.4%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.68%</b>	<b>3.64%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
10/24	MBA Mortgage Applications	19-Oct	--	-4.2%
10/24	New Home Sales	Sep	385K	373K
10/24	House Price Index MoM	Aug	0.4%	0.2%
10/24	FOMC Rate Decision	24-Oct	0.25%	0.25%
10/25	Durable Goods Orders	Sep	7.0%	-13.2%
10/25	Initial Jobless Claims	20-Oct	370K	388K
10/25	Pending Home Sales MoM	Sep	2.50%	-2.60%
10/26	GDP QoQ (Annualized)	3Q A	1.8%	1.3%
10/26	Core PCE QoQ	3Q A	1.3%	1.7%
10/26	U. of Michigan Confidence	Oct F	83.0	83.1



#### **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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