

Trading Desk Commentary

It goes without saying: this week's extenuating circumstances due to "Superstorm Sandy" made for a quirky investing week. US stock and bond market closures Monday and Tuesday created uncertainty over the kind of environment investors would encounter upon the markets' reopening. Fortunately, by the time everything came back online Wednesday morning, we saw only minor disruptions – notably in dollar-denominated International ETFs that had been closed to trading while European markets enjoyed a positive trading tone. The Muni market has not budged much since returning to more normal operation, but we have seen some fluctuations in US Treasuries and equities following late-week economic releases. Yesterday's ADP employment and manufacturing data spurred equities on to a strong day (and USTs weaker); however, today's equities lost ground as investors attention turned to Tuesday's up-in-the-air election. Even an upside surprise in the new Nonfarm payrolls number couldn't preserve yesterday's good vibrations. Perhaps the slight uptick to the Unemployment Rate (from 7.8% to 7.9%) after its dramatic drop in September created a bit of skepticism toward the true strength of the job market's recovery.

As we mentioned earlier in the week, Sandy forced issuers to postpone the vast majority of the week's planned Muni issuance at the last minute. What is a bit surprising is the lack of bounce-back we are seeing in next week's expected supply. Instead of this week's delay in issuance creating a "doubling up" effect next week, dealers are expected to bring approximately \$7bln in new supply starting Monday. If this number holds true, the large amount of cash still chasing Municipal bonds (despite an anomalous, in our opinion, report showing weekly net Muni fund outflows for the first time in 28 weeks) should not struggle to digest the limited issuance. However, we are still hearing that Wall Street is nowhere near full-strength yet. One wonders how much of the Muni supply lag is being created by short-staffed desks and an understandable focus being placed on the Northeast's recovery efforts. We would not be surprised to see the Bond Buyer 30-day visible supply number grow as we put Sandy further in our rear-view mirror. For the very near-term, we suspect the debt markets will remain fairly subdued until we know who our President will be for the next four years. Beyond Tuesday, the markets reaction will demonstrate the world's level of confidence in the President-Elect's ability to promote US growth. Here's to hoping the next four years hold more cooperation and progress in Washington because, regardless of the election's outcome, our longer term challenges aren't going away next week.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	107%
5 Year	0.67	0.00	0.67	92%
10 Year	1.73	0.00	1.73	100%
30 Year	2.82	-0.01	2.83	97%
UST Rates				
2 Year	0.28	-0.02	0.30	
5 Year	0.73	-0.03	0.76	
10 Year	1.73	-0.02	1.75	
30 Year	2.91	-0.01	2.92	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.75	\$4.60
Competitive	\$1.31	\$1.28
TOTAL	\$7.06	\$5.88

Municipal 30 Day Visible Supply (\$ Bln)	\$7.06	\$8.83
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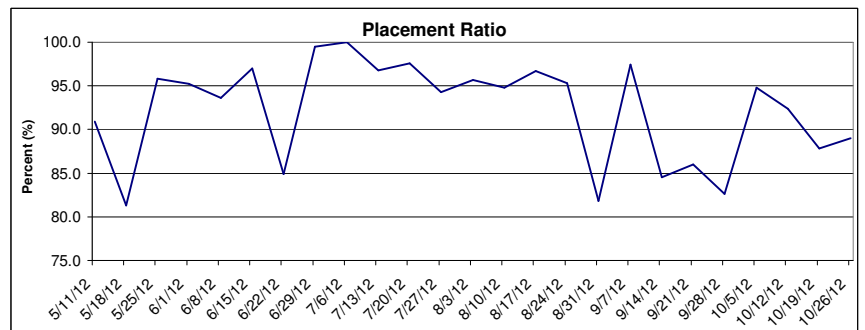
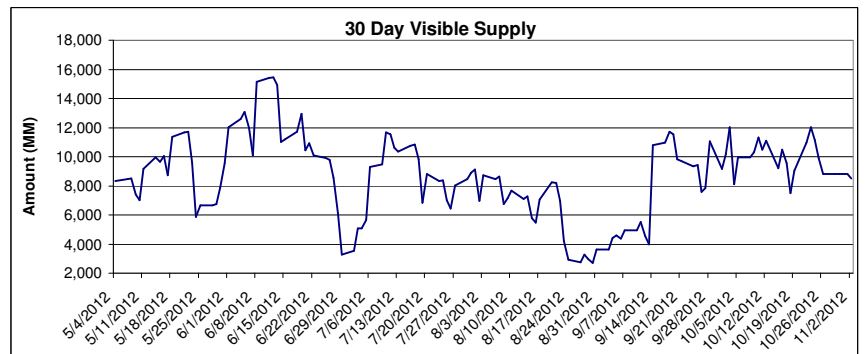
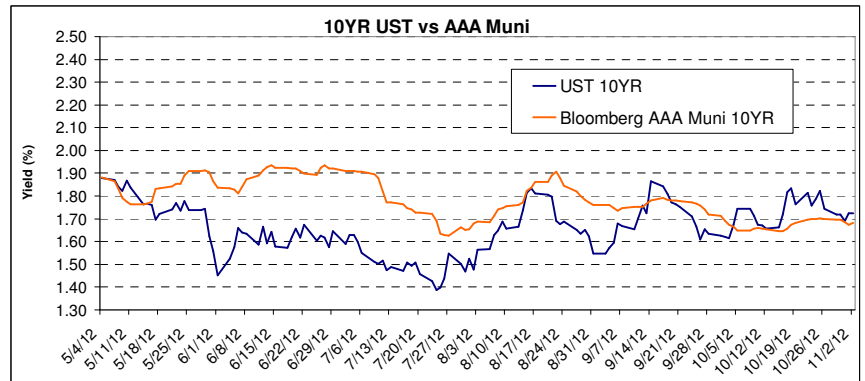
Bloomberg Muni PICK Offerings (\$ Bln)	\$3.36	\$12.91
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Muni Placement Ratio (New Issues)	n/a	89.0%
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Bond Buyer 20 Municipal G.O. Index	3.68%	3.68%
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Select Economic Releases

Date	Event	Period	Survey	Prior
11/5	ISM Non-Manf. Composite	Oct	54.5	55.1
11/7	MBA Mortgage Applications	2-Nov	--	-4.8%
11/8	Trade Balance	Sep	-\$45.0B	-\$44.2B
11/8	Initial Jobless Claims	3-Nov	368K	363K
11/8	Continuing Claims	27-Oct	3260K	3263K
11/9	Import Price Index (MoM)	Oct	0.0%	1.1%
11/9	U. of Michigan Confidence	Nov P	82.9	82.6
11/9	Wholesale Inventories	Sep	0.4%	0.5%



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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