

Trading Desk Commentary

CNBC's "Squawk on the Street" produced a silly-but-interesting graphic this morning that showed this week's equity market reactions to various talking heads in Washington addressing the fiscal cliff negotiations. Eamon Javers, CNBC's Washington Reporter, followed the graphic up by saying that he felt markets were overreacting to the "boilerplate" language used by congressional leaders and that investors were taking many of the rehearsed political remarks the wrong way. What does he expect? The only glimpse into the debt proceedings that most investors are receiving are these brief sound bites from the likes of Boehner, Reid, and the President, which so far only yielded flaccid statements about the need for compromise or portrayed a stubborn, critically-divided legislature. Reports indicate that the White House's proposal put forth this week is D.O.A., with heavy tax increases (unsurprising) and actually more spending (seriously?). In the corner of the screen sits CNBC's Fiscal Cliff Countdown clock resembling the timer on a movie villain's nuclear warhead ticking down to detonation. The reasons behind the global markets' anxiety were all on the screen at the same time: the constant reminders of the consequences waiting at year's end if an agreement cannot be met overlaid with conflicting statements from a seemingly inept White House and US Congress – all with the media there to crank it up to 11. Investors have significant reasons to be wary and reactive to the fiscal cliff developments as they unfold. No one wants to be caught trading on the wrong side of a grand bargain or a dive over the cliff. Javers closed his piece stating that we are watching the "biggest game of poker in human history" in Washington. Must be nice to play poker with everyone else's money.

In the absence of progress on Capitol Hill, demand for US Treasuries and Municipal bonds soared. On the heels of last week's Thanksgiving holiday, dealers tried to make up for lost time by bringing a healthy \$8bn in new supply across a variety of sectors and ratings. From a large (Aaa/AAA) Baltimore County, Maryland general obligation loan to more obscure healthcare deals, the broad spectrum of Muni issuers was well represented – and all deals seemed to go extremely well. Demand for safety drove strong orders in the highest quality offerings while yield-starved participants snatched up those deals offering attractive incremental yield. According to Municipal Market Data's AAA Muni scale, Munis are at their lowest yield in history from 6-year maturities and longer. Another round of \$8bn in new issuance is already lined up for next week. Muni-to-Treasury ratios (Muni yields relative to comparable US Treasury yields) are at some of the lowest levels in recent memory, compressed by 2013 tax uncertainty and huge Muni bond fund flows, according to Lipper (\$50bn YTD!). Still, we remain constructive in the debt markets. Technicals have been rendered all but obsolete by the insatiable hunger for tax-efficient haven assets. What will finally cause Muni bidders to lose their appetite? A long-term US debt solution before year-end would go a long way in slowing the flight-to-quality, but Europe is always waiting in the wings to throw cold water on any kind of positive risk momentum. But, we digress – one crisis at a time.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	120%
5 Year	0.64	0.00	0.64	105%
10 Year	1.47	-0.06	1.53	91%
30 Year	2.47	-0.07	2.54	88%
UST Rates				
2 Year	0.25	-0.02	0.27	
5 Year	0.61	-0.07	0.68	
10 Year	1.61	-0.08	1.69	
30 Year	2.81	-0.02	2.83	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.77	\$1.97
Competitive	\$1.59	\$0.27
TOTAL	\$8.36	\$2.24

Municipal 30 Day Visible Supply (\$ Bln)	\$10.95	\$11.10
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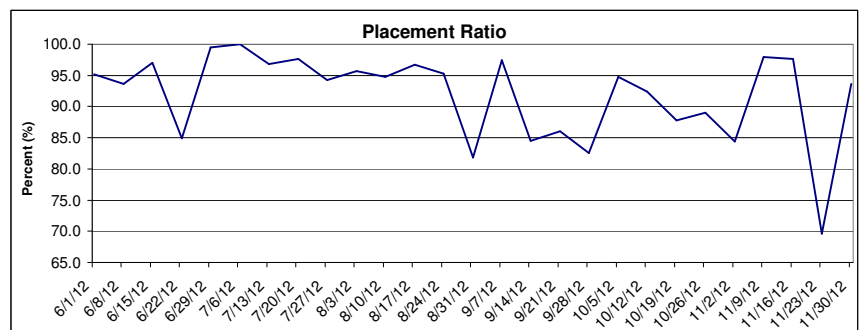
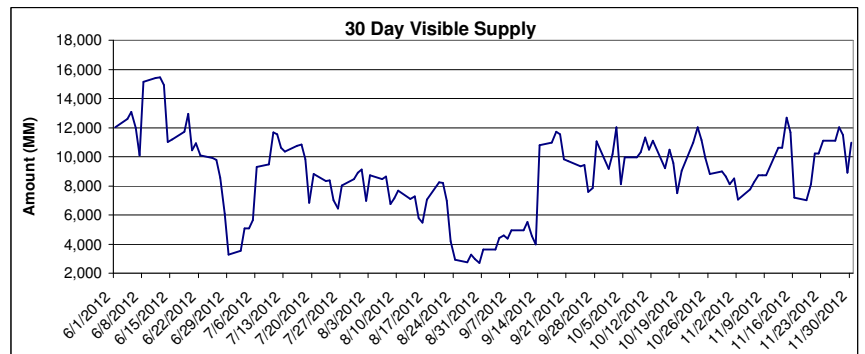
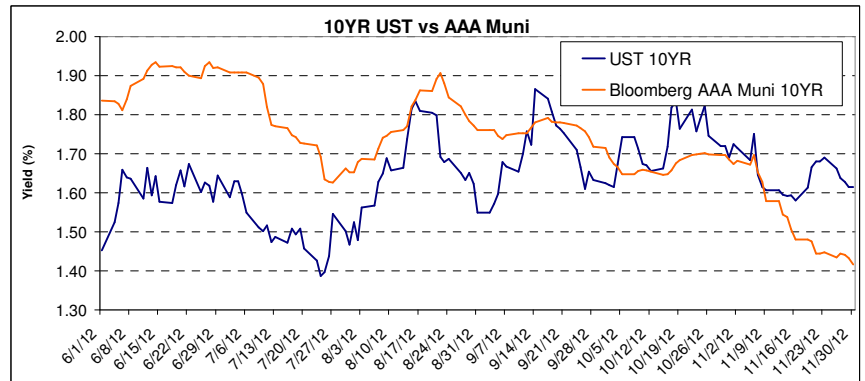
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.40	\$9.06
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Muni Placement Ratio (New Issues)	93.6%	n/a
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Bond Buyer 20 Municipal G.O. Index	3.29%	3.37%
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Select Economic Releases

Date	Event	Period	Survey	Prior
12/3	ISM Manufacturing	Nov	51.5	51.7
12/5	MBA Mortgage Applications	30-Nov	--	-0.9%
12/5	ADP Employment Change	Nov	125K	158K
12/5	Nonfarm Productivity	3Q F	2.70%	1.90%
12/5	Factory Orders	Oct	0.0%	4.8%
12/6	Initial Jobless Claims	1-Dec	380K	393K
12/6	Continuing Claims	24-Nov	3275K	3287K
12/7	Change in Nonfarm Payrolls	Nov	90K	171K
12/7	Unemployment Rate	Nov	7.9%	7.9%
12/7	U. of Michigan Confidence	Dec P	82.0	82.7



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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