

Trading Desk Commentary

What a week. Major developments with strong implications on market behavior and outlook dominated the past five trading days – and it was fascinating to watch. For US markets, President Obama’s decisive victory over Mitt Romney was certainly the primary focus. Participants maintained a holding pattern in the week leading up to the election – the 10-year US Treasury bond traded in a 6 basis point range and the Dow ping-ponged in a tight 100 point range as well. In the first trading session following Obama’s re-election, equities were crushed and investors could be seen fleeing the risk markets in favor of US Treasuries and Municipal bonds. Republicans still controlled the House, Democrats re-secured the Senate, and the President received four more years – all in the face of 7.9% unemployment, a sputtering US economy, and the fiscal cliff deadline rapidly approaching. With the same chess pieces on the board, investors strongly fear a repeat of last year’s debt ceiling stalemate. Why would Congress’ treatment of the fiscal cliff be any different this time? Thus far, they have not received much comfort.

On top of the election, Europe added gas to the “risk off” flame. The likelihood of Greece receiving the bailout funds it sorely needs in a timely manner is by no means a slam dunk. Greece continues to push back on the European Central Bank’s mandatory austerity measures, hindering the country’s access to the funds. Furthermore, skepticism seems to be growing that these bailout funds may not put a dent in the growing Euro struggles. In fact, ECB President Draghi hinted at as much earlier this week.

All of this is a long way of saying that, for the moment, haven assets appear to be en vogue despite equities showing a little bounce today. As the market hits the pause button on its flight-to-quality and assesses the situation, so must we. We had been preparing for a volatile end to the year since the summer, and it appears the market will not disappoint. Though we received an answer to the “next four years” question, we await many more – from both the US Congress and Euro leaders. This alone should support safer investment alternatives as we head into year end. Municipals, in particular, appear poised for a strong run. Demand feels very sturdy, even today as US Treasuries sold off, Muni trading looked impressive. Also, yesterday proved that the weekly outflow in Muni bond funds was indeed a Sandy-caused anomaly: \$866mln flowed back in to the sector’s funds this week. It’s worth noting that the supply picture does warrant a watchful eye. The Bond Buyer 30-day visible supply is closing in on \$11bln and next week alone will bring over \$8bln in new debt. As of today, this should be an easy feat given Muni demand and the holidays just around the corner (when supply typically plummets). Still, we are always just one Euro bailout or one Congressman’s promise away from a quick pivot in market sentiment. 2012 is not going to end with a whimper.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	115%
5 Year	0.65	-0.02	0.67	102%
10 Year	1.57	-0.16	1.73	98%
30 Year	2.66	-0.16	2.82	97%
UST Rates				
2 Year	0.26	-0.02	0.28	
5 Year	0.64	-0.09	0.73	
10 Year	1.61	-0.12	1.73	
30 Year	2.75	-0.16	2.91	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$7.05	\$5.75
Competitive	\$0.98	\$1.31
TOTAL	\$8.03	\$7.06

Municipal 30 Day Visible Supply (\$ Bln)	\$10.79	\$7.06
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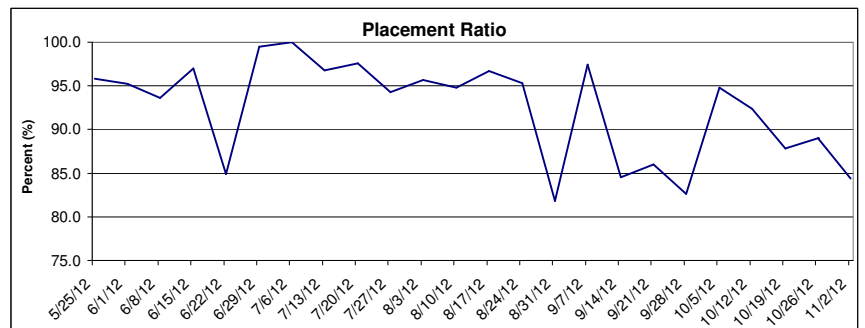
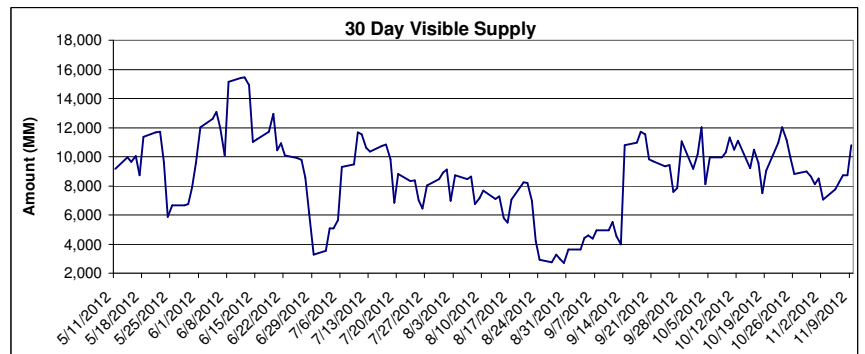
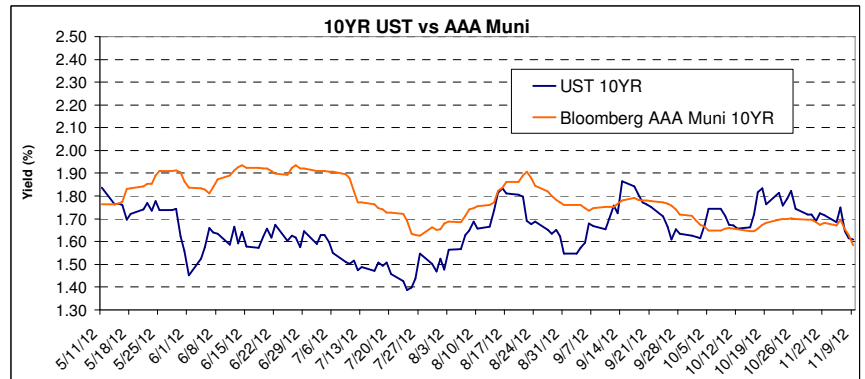
Bloomberg Muni PICK Offerings (\$ Bln)	\$10.14	\$3.36
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Muni Placement Ratio (New Issues)	n/a	84.4%
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Bond Buyer 20 Municipal G.O. Index	3.55%	3.68%
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Select Economic Releases

Date	Event	Period	Survey	Prior
11/14	MBA Mortgage Applications	9-Nov	--	-5.0%
11/14	Producer Price Index (MoM)	Oct	0.2%	1.1%
11/14	Advance Retail Sales	Oct	-0.2%	1.1%
11/14	Retail Sales Less Autos	Oct	0.20%	1.10%
11/14	Minutes of FOMC Meeting			
11/15	Consumer Price Index (MoM)	Oct	0.1%	0.6%
11/15	CPI Ex Food & Energy (MoM)	Oct	0.1%	0.1%
11/15	Empire Manufacturing	Nov	-7.4	-6.2
11/15	Initial Jobless Claims	10-Nov	373K	355K
11/15	Continuing Claims	3-Nov	3160K	3127K
11/16	Industrial Production	Oct	0.2%	0.4%



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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