

Trading Desk Commentary

The period between the Thanksgiving and Christmas holidays is a quirky one. The past two in 2010 and 2011 hosted starkly different Municipal bond performance. In 2010, US Muni prices buckled following Meredith Whitney's widely publicized (and incorrect) calls for massive Muni defaults and claims of critical systemic risk in the tax-exempt market. Furthermore, tax-exempt supply was simultaneously exploding as the Build America Bond program expired and state and local issuers rushed to take advantage of the federal subsidy the program provided. Then, in late-2011, concerns over the European debt crisis and a more manageable Muni supply picture fueled ravenous demand for haven assets, and created a 3-month rally that pushed Muni yields down 100 basis points (1.00%). Here we are now in 2012 and the situation is as equally interesting as the previous two years. Entering this week it looked as though the Municipal market certainly had a few cards stacked against it. The 30-day visible supply calendar topped out near \$13bln late last week, with \$11bln of the total scheduled for this week. Had the Muni bid not shown so much strength in recent weeks, participants may have shown even more anxiety over issuer's asking them to take down one of the largest weekly supply totals of the year. On top of that, the macro picture feels extraordinarily uncertain this time around, mainly due to the ongoing lack of progress from our fiscal cliff negotiators. We are 17 days away from the deadline and have nothing to show from the past several weeks except more finger-pointing and political grandstanding. As time ticks off the clock, the chances of some form of grand bargain are withering away. The sharp uptick in supply put upward pressure on Muni yields, and an apathetic investor pool, more than willing to hunker down and wait for developments in the budget talks, stayed on the sidelines to watch it happen.

10-year AAA Muni yields jumped 18 basis points (0.18%) (MMD) as dealers struggled to find homes for a wide array of deals. The higher-rated (i.e. lower-yielding) deals struggled the most, but underwriters slashed prices across the board to help distribute the heavy supply. Furthermore, Muni selling in the secondary picked up steam as well and pressured the Muni sector from both sides. Bottom line, it was a soft week for Munis (especially given their sell-off today while US Treasuries rallied on cliff concerns). But we still feel like it is no time to hit the 'eject' button. First, and typical of the week before Christmas, weekly supply will plummet next week (only \$3bln total is expected). Even modest demand easily should be able to take down that amount. Second, as the fiscal cliff deadline gets closer, we envision participants' demand for safer assets to quickly return at least over the near-term and hang around until some sort of resolution is reached. After touching all-time yield lows, some sort of pushback was inevitable, but our Muni outlook over the coming weeks remain constructive. As for Munis establishing a longer trend toward higher yields, the ball remains in Congress' court.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	125%
5 Year	0.73	0.09	0.64	103%
10 Year	1.66	0.18	1.48	98%
30 Year	2.71	0.23	2.48	94%
UST Rates				
2 Year	0.24	0.00	0.24	
5 Year	0.71	0.09	0.62	
10 Year	1.70	0.07	1.63	
30 Year	2.87	0.05	2.82	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.88	\$8.25
Competitive	\$0.31	\$2.16
TOTAL	\$3.19	\$10.41

Municipal 30 Day Visible Supply (\$ Bln)	\$5.99	\$12.85
---	---------------	----------------

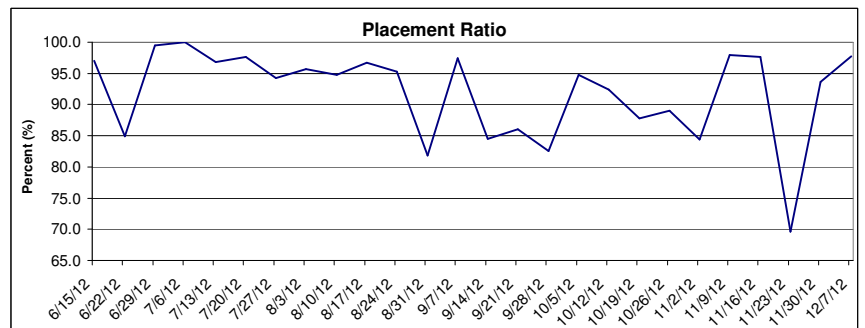
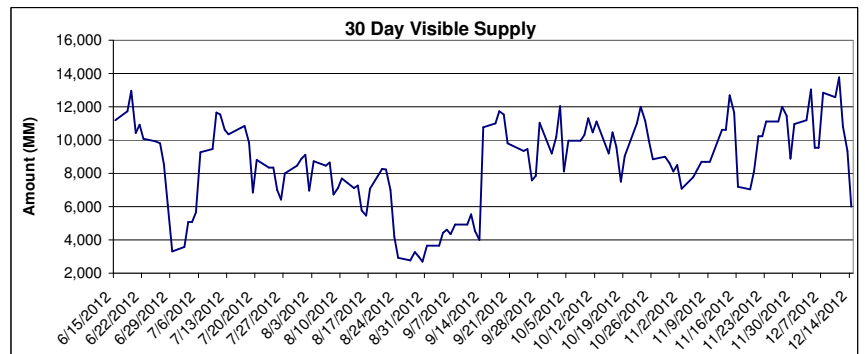
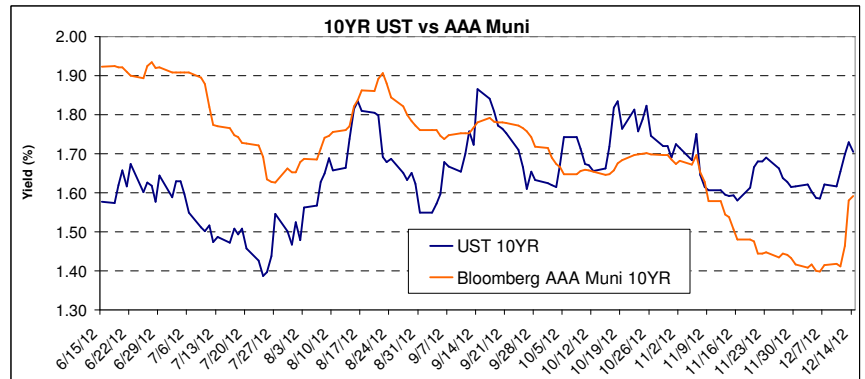
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.65	\$13.14
---	----------------	----------------

Muni Placement Ratio (New Issues)	n/a	97.1%
--	------------	--------------

Bond Buyer 20 Municipal G.O. Index	3.44%	3.27%
---	--------------	--------------

Select Economic Releases

Date	Event	Period	Survey	Prior
12/17	Empire Manufacturing	Dec	-1.0	-5.2
12/19	MBA Mortgage Applications	14-Dec	--	6.2%
12/19	Housing Starts	Nov	873K	894K
12/20	GDP QoQ (Annualized)	3Q T	2.80%	2.70%
12/20	Initial Jobless Claims	15-Dec	360K	343K
12/20	Existing Home Sales	Nov	4.90M	4.79M
12/20	Leading Indicators	Nov	-0.2%	0.2%
12/21	Personal Income	Nov	0.3%	0.0%
12/21	Personal Spending	Nov	0.4%	-0.2%
12/21	Durable Goods Orders	Nov	0.5%	0.0%
12/21	U. of Michigan Confidence	Dec F	75.0	74.5



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.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.