

Trading Desk Commentary

Looking back over the week in an effort to cobble together a current tone and outlook for the Muni market, it is difficult to end up with a cohesive conclusion. Today's tax-exempt market, in our opinion, looks like a mish-mash of conflicting numbers and mixed signals. Starting with the positives, the recent supply has been very subdued now for the majority of 2013. Participants were only asked to digest roughly \$4.8bln in new loans this week, which extended the now three-week streak of less than \$5bln in new issuance. While the light primary market activity is wreaking havoc on investors' ability to source new Muni purchases, it is also holding Muni yields steady in the face of a more volatile US Treasury landscape. Next week looks to bring roughly \$5.5bln of new loans, which we would still place in the "manageable" category (though the holiday-shortened week will make the amount feel like a bit more). Furthermore, demand for Munis appears robust, which is probably the case for several reasons: 1) tax consequences of upcoming political debates on Capitol Hill that may or may not go into effect, 2) a plethora of year- and month-end maturities that are all chasing the same limited amount of available supply, 3) Municipal bond fund flows continuing unabated for a fifth straight week, adding even more competition among buyers. On the negative side, US Treasuries remain choppy, leaving Munis to fend for themselves in terms of direction. In periods of lighter activity and supply, Munis tend to lean harder on US Treasury moves for guidance, but recently this has not necessarily been the case. The supply-demand imbalance seems to be insulating Munis from some (not all) of the recent Treasury chop, but this is making it difficult to pinpoint fair Muni value. Also, the Bond Buyer 30-day visible supply jumped up meaningfully today to above \$9bln. On its own, this number is nothing to be too alarmed over. However, the uptick is worth noting and demands that we begin monitoring the statistic more closely. If supply continues on an upward trajectory, the supply-demand dynamic could experience its first test of the year and potentially break Munis out of their holding pattern. Still, we do not appear to have reached that point just yet.

Therefore, we remain comfortable in our long-of-benchmark duration positioning, especially over the intermediate term when we will be dealing with reinvigorated budget debates in DC. Furthermore, Europe appears to be waking up from its winter slumber and has plenty of challenges that it will have to face in the coming months in a highly public arena. The past few Springs have been plagued by EU fears, sparking a need for haven assets and cutting equity rallies at the knees. We will soon see if history repeats itself. In summary, we still see a number of political and economic headwinds in the upcoming calendar year. While our investment policy still emphasizes the accommodative Fed as the primary reason for a longer duration bias, the hurdles our global finance leaders will have to clear further supports our constructive outlook in "safer" assets.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.32	-0.02	0.34	119%
5 Year	0.83	0.03	0.80	95%
10 Year	1.85	0.05	1.80	93%
30 Year	2.92	0.06	2.86	92%
UST Rates				
2 Year	0.27	0.02	0.25	
5 Year	0.87	0.06	0.81	
10 Year	2.00	0.05	1.95	
30 Year	3.18	0.02	3.16	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.37	\$2.40
Competitive	\$2.25	\$2.42
TOTAL	\$5.62	\$4.82

Municipal 30 Day Visible Supply (\$ Bln)	\$9.64	\$5.73
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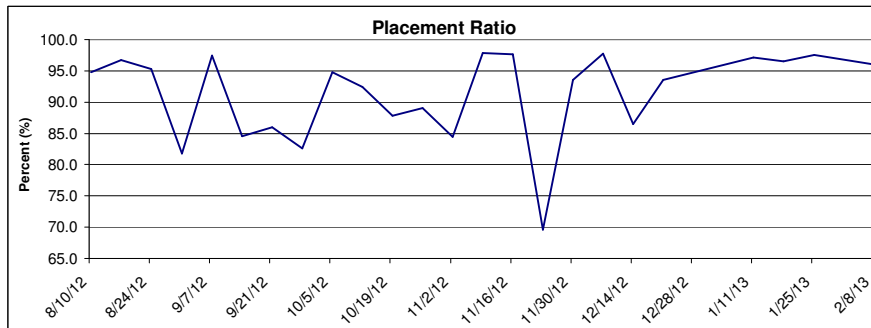
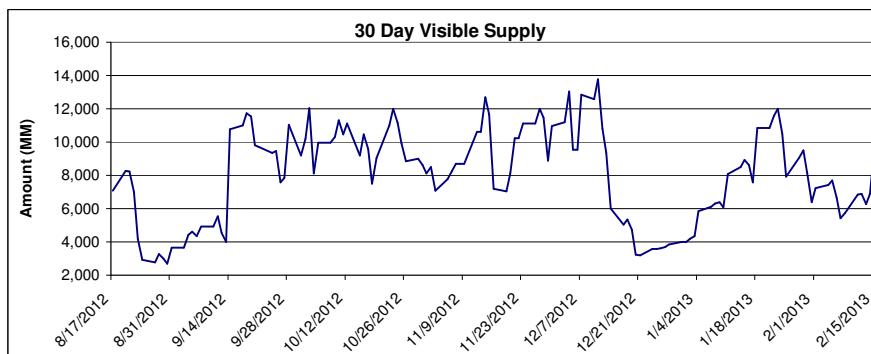
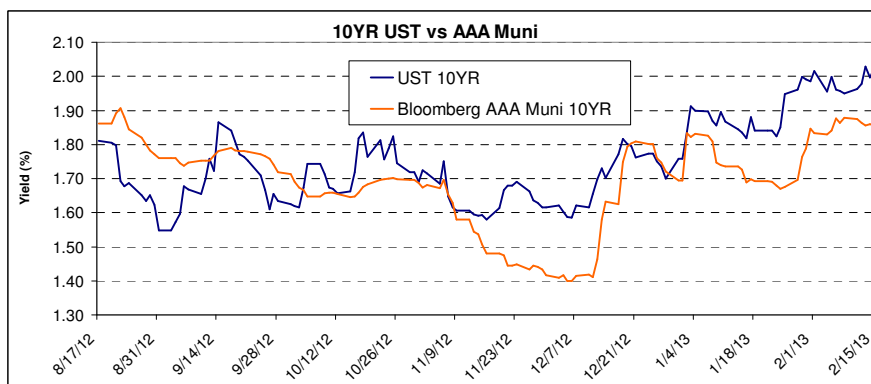
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.28	\$13.38
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Muni Placement Ratio (New Issues)	n/a	96.0%
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Bond Buyer 20 Municipal G.O. Index	3.72%	3.68%
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Select Economic Releases

Date	Event	Period	Survey	Prior
2/20	MBA Mortgage Applications	15-Feb	--	-6.4%
2/20	Housing Starts	Jan	920K	954K
2/20	Building Permits	Jan	920K	903K
2/20	Producer Price Index (MoM)	Jan	0.3%	-0.2%
2/20	Fed Releases Minutes			
2/21	Consumer Price Index (MoM)	Jan	0.1%	0.0%
2/21	Initial Jobless Claims	16-Feb	355K	341K
2/21	Continuing Claims	9-Feb	3150K	3114K
2/21	Existing Home Sales	Jan	4.90M	4.94M
2/21	Leading Indicators	Jan	0.2%	0.5%



Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	.85 YRS to 1.85 YRS	0 YRS to 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	1.30 YRS to 2.30 YRS	0 YRS to 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	4.00 YRS to 5.00 YRS	0 YRS to 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	3.50 YRS to 4.50 YRS	0 YRS to 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	2.50 YRS to 7.50 YRS		Slight Overweight to Cal. and HY Sector
Core Plus ETF	2.35 YRS to 7.10 YRS		Slight Overweight to Int'l and Corp Sectors
Tactical Opportunity ETF	2.45 YRS to 7.30 YRS		Favor Munis v. Taxables, Slight HY Bias

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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