

## Trading Desk Commentary

Today we capped off the second consecutive week that saw the Municipal space weaken and move to modestly higher yields. Last week, manageable tax-exempt supply and fairly light activity left Munis a bit rudderless, encouraging the asset class to take its cues from Treasuries. At the outset of this week, supply conditions and expected activity appeared relatively similar, though we thought it could feel slightly rushed given the holiday-shortened week. In the end, some of the week's larger deals did feel somewhat sloppy, namely the \$350mln (Aaa/AAA) State of North Carolina general obligation loan, which assisted MMD scale-makers' decision to cheapen their high-grade Muni levels. By Friday, very few balances were left over from the new deals, but many did see their asking prices reduced before gaining traction from buyers. Some of the market's apathy can likely be explained by the slow start to the week following President's Day, but the full picture is probably more complicated than that. And it is not like last week where lighter Muni activity had Munis playing follow the leader with US Treasuries. The fact that Muniland weakened in the face of an advancing US Treasury market is notable and may suggest a Muni-specific phenomenon may be taking place that cannot be brushed off by blaming a general rate move.

We believe the likely candidate for the underperformance may be the return of some sequestration anxieties – after all, the current deadline is Friday, March 1st. As of now, on that date, roughly \$1.2 trillion in spending cuts will be enacted (hitting the US Department of Defense the hardest). Sequestration was put in place to provide a looming threat of dire consequences should Congress fail to come to a budget agreement. The idea was that the cost of failing to reach an agreement would be too great and Congressional leaders would be forced to reach a compromise – yet here we are with no solutions on the table. The uncertainty may be making Muni bidders apprehensive, especially since so many municipalities are reliant on federal dollars that could be trimmed in upcoming budget battles. However, we see a bit of an opportunity in the current environment to purchase bonds at slightly more attractive absolute yield levels. Part of the solution will likely be higher taxes for the country's highest earners, making the tax shelter provided by Municipal bonds that much more attractive. Furthermore, recent rumors suggest that the current Muni tax exemption status may be safe from any changes or reductions, based on President Obama's most recent proposals. Munis' recent lag to US Treasuries have Muni-to-Treasury ratios at some of their highest levels in 2013. We also believe that, as the debates heat up in Washington, haven assets should remain en vogue for the time being – at least until there is some sign of progress or cooperation. In summary, the recent back-up in Muni yields coupled with the real potential of a highly volatile March amidst the sequestration and debt ceiling deadlines leaves us constructive on the US Municipal market, with the view that current yields provide a favorable opportunity to get cash invested. With over \$7bln in new supply next week, we should also see an increase in our options to do so.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	-0.01	0.32	124%
5 Year	0.84	0.01	0.83	101%
10 Year	1.90	0.05	1.85	97%
30 Year	2.94	0.02	2.92	93%
UST Rates				
2 Year	0.25	-0.02	0.27	
5 Year	0.83	-0.04	0.87	
10 Year	1.96	-0.04	2.00	
30 Year	3.15	-0.03	3.18	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$6.73	\$3.37
Competitive	\$1.07	\$2.25
<b>TOTAL</b>	<b>\$7.80</b>	<b>\$5.62</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$10.91</b>	<b>\$9.64</b>
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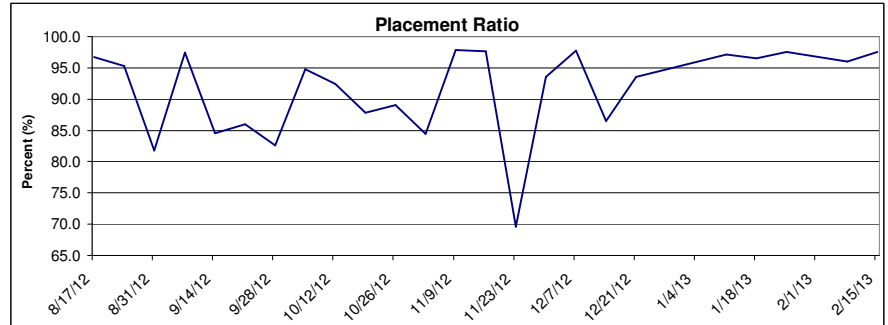
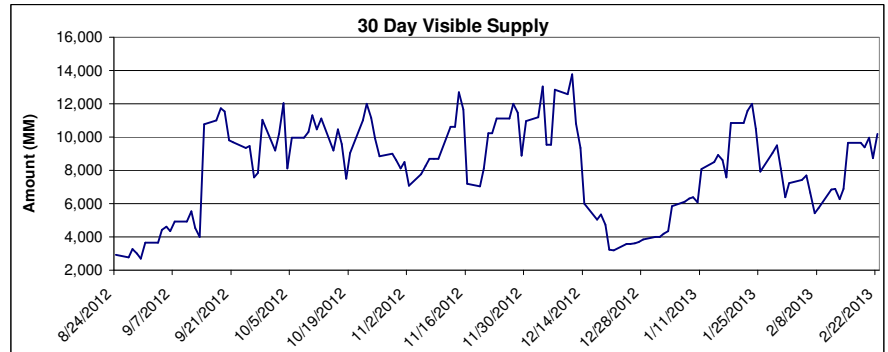
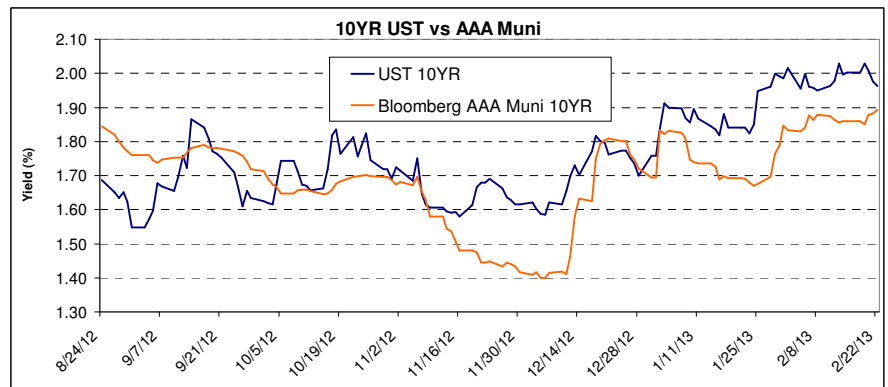
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.88</b>	<b>\$11.28</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>97.5%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.74%</b>	<b>3.72%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
2/26	Consumer Confidence	Feb	62.0	58.6
2/26	New Home Sales	Jan	380K	369K
2/27	MBA Mortgage Applications	22-Feb	--	-1.7%
2/27	Durable Goods Orders	Jan	-4.7%	4.6%
2/27	Pending Home Sales MoM	Jan	1.8%	-4.3%
2/28	GDP QoQ (Annualized)	4Q S	0.5%	-0.1%
2/28	Core PCE QoQ	4Q S	0.9%	0.9%
2/28	Initial Jobless Claims	23-Feb	360K	362K
2/28	Continuing Claims	16-Feb	3140K	3148K
3/1	U. of Michigan Confidence	Feb F	76.3	76.3
3/1	ISM Manufacturing	Feb	52.5	53.1



## 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 Corporate 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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