

Trading Desk Commentary

It became readily apparent early in the week that Congress would not be able to meet the March 1st sequestration deadline with a viable solution. By Thursday night, Congress had given up trying to prevent the \$85 billion in spending cuts that will now go into effect, and went home for the weekend. Any hopes that an 11th hour deal could be agreed upon today as Congressional leaders met with the President behind closed doors were quickly dashed by President Obama's press conference at 11:35am, which essentially served as a public concession that sequestration was indeed going in to effect. Congress' stalemate resulted in yet another missed self-imposed deadline, only this time the cuts were not postponed to some later date. Today, Washington capped off another critical failure in its ability to compromise. As it became increasingly clear throughout the week that a grand bargain was off the table, investors fled to US Treasuries in a decisive "risk-off" move. It should be noted that the flight-to-quality was further spurred along by the shaky outlook in Italy following an unexpectedly close presidential election. Equity investors were able to turn a blind-eye to Washington's impasse, choosing to focus on better-than-expected manufacturing and confidence numbers. The Dow continues to flirt daily with an all-time high close.

Investors' search for safety assisted Muniland performance, moving essentially in lock-step with their taxable counterparts. Heading in to the week, almost \$8bln in new Muni supply offered a decent test of Muni appetite. Last week's moderation of Muni bond fund inflows and Munis' underperformance versus US Treasuries worried traders that the demand base would not be sufficient to support the supply uptick. The stable US Treasury backdrop certainly helped squash some of those fears but tax-exempts seemed to perform well in their own right. Muni bond fund flows increased a bit (up \$114mln net, according to Lipper) and the week's largest deals were reportedly met with a generally warm reception, especially the \$839mln (Aa2/AA) New York City general obligation deal that gained traction at yields consistent with historical averages. New loans offering incremental yield versus a typical AAA GO bond continue to shine. One revenue deal that stood out this week was the \$265mln (Aa3/A+) University of Wisconsin Hospital revenue loan which was well-subscribed and saw its yields drop roughly 10 basis points (0.10%) in the 10-year range in an effort to wrangle in the rabid demand. This is a good example of the type of deals still garnering a heap of interest: a fairly strong credit in its own right that rarely issues, offering extra yield to those investors who can get their hands on it. As we have mentioned before, the demand in this type of debt over the past several months has "compressed" yields substantially versus the MMD AAA GO benchmark. In other words, names that used to offer (for example) 120 basis points (1.20%) of incremental yield are now only good for an extra 60-70 basis points over the AAA benchmark. The falling yields (rising prices) in these revenue sectors continue to encourage investors to seek out longer maturities and less-creditworthy names to combat the ultra-low yield environment. We have been taking a bit more measured approach in 3 steps: 1) remaining an active buyer in smaller increments which tends to result in more attractive prices; 2) remaining patient in the new issue market and selective in the deals in which we choose to participate; 3) remaining diligent in our credit process, seeking out revenue-sector bonds offering attractive yields on a risk-adjusted basis.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	129%
5 Year	0.76	-0.08	0.84	101%
10 Year	1.78	-0.12	1.90	96%
30 Year	2.90	-0.04	2.94	95%
UST Rates				
2 Year	0.24	-0.01	0.25	
5 Year	0.75	-0.08	0.83	
10 Year	1.85	-0.11	1.96	
30 Year	3.06	-0.09	3.15	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.62	\$6.73
Competitive	\$2.35	\$1.07
TOTAL	\$5.97	\$7.80

Municipal 30 Day Visible Supply (\$ Bln)	\$8.38	\$10.91
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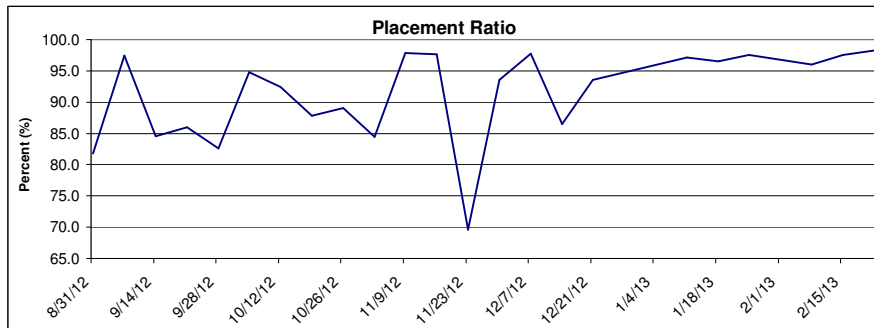
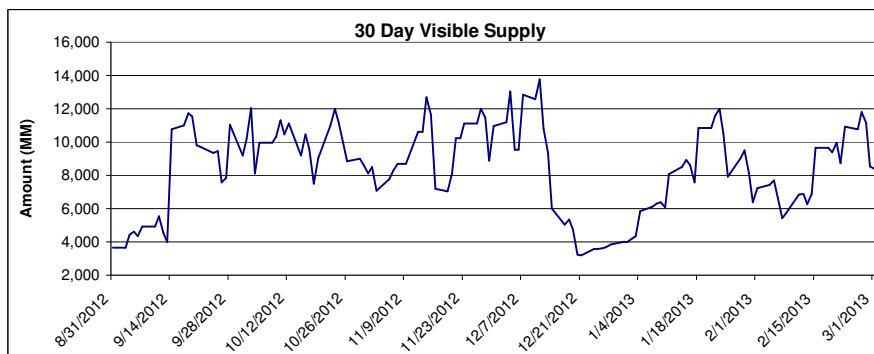
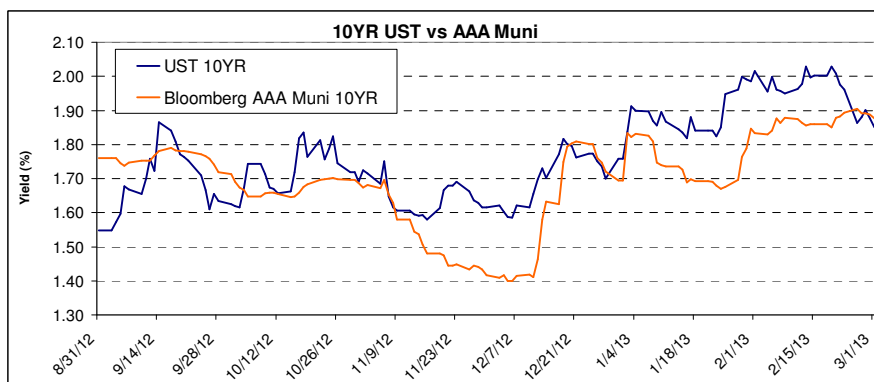
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.12	\$12.88
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Muni Placement Ratio (New Issues)	n/a	98.3%
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Bond Buyer 20 Municipal G.O. Index	3.74%	3.74%
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Select Economic Releases

Date	Event	Period	Survey	Prior
3/5	ISM Non-Manf. Composite	Feb	55.0	55.2
3/6	MBA Mortgage Applications	1-Mar	--	-3.8%
3/6	ADP Employment Change	Feb	170K	192K
3/6	U.S. Federal Reserve Beige Book			
3/7	Initial Jobless Claims	2-Mar	355K	344K
3/7	Continuing Claims	23-Feb	3120K	3074K
3/8	Change in Nonfarm Payrolls	Feb	160K	157K
3/8	Unemployment Rate	Feb	7.9%	7.9%



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		Neutral Munis to 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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