

Trading Desk Commentary

A heavy Muni supply calendar created a modest disconnect between the behaviors we observed in US Treasuries versus the tax-exempt space. US Treasuries strengthened on the week (roughly 5 basis points on the UST 10-year), likely due to mid-week profit-taking in US equity markets that have been on an absolute tear since late February. Today's surprising drop in the University of Michigan Consumer Confidence metric spurred on another bid for quality assets and supplied the Dow with its first down day in March. Despite the firmer backdrop provided by the Treasury market, Munis felt a little overwhelmed by supply to start the week and only seemed to fall further and further behind as the week progressed. Muniland certainly had a full plate as dealers brought more than \$8bln in new issuance over the five-day period, though the calendar was dominated by a whopping \$2.4bln (A1/A) State of California GO deal. The primary calendar seemed to bottleneck around mid-week with all of the deals fighting for attention. The sheer size of the supply calendar alone rendered the secondary market's activity irrelevant – the new deals were giving bidders more than they could handle on their own. California (unsurprisingly) drew a huge amount of participant focus, so when dealers were forced to cut the loan's prices (and substantially in longer maturities) to find distribution, everyone was watching. When the initial pricing for the California deal hit the wire, we immediately felt that the deal was overpriced. Dealers may have been a bit overconfident given California recent build-up of goodwill and positive ratings reaction in response to its improved revenues and proactive budgetary decisions. We believe that California's yields were too aggressive to begin with and its adjusted prices reflect a reversion to reality, not necessarily any push-back in the California name. Regardless, the Golden State's sluggish week and a crowded primary were chiefly responsible for the weaker tone.

But how much weaker were we? Depends who you ask. Municipal Market Data's AAA GO benchmark showed Munis weakening by only a couple of basis points in the 10-year area. Meanwhile, the Bloomberg BVAL Muni Benchmark 10Yr pegged the maturity range 23 basis points cheaper, a marked difference. The BVAL metric uses publicly available trading data in high-grade Munis to interpolate its scales movements, while MMD has a small committee review activity and create a more subjective scale (though it is considered the industry standard and heavily relied upon). In digging into the numbers, it looks like BVAL was largely playing catch-up with MMD's more severe cuts last week and now the magnitude of their respective price changes appear to have leveled out. But that's not to say we are out of the woods just yet. Another round of \$9bln+ in new supply is slated for next week and looks like it could be the largest weekly volume of the year thus far. Furthermore, the amount of selling in the Muni space looks elevated, though this is not atypical close to tax time as investors raise cash for tax liabilities. Lipper reported a second consecutive week in Muni bond fund outflows which likely exacerbated the amount of paper out for the bid. This time of year often tests Muni strength and 2013 appears to be no different. We continue to view the current environment as a buying opportunity – too many obstacles lay in the path of a sustained move to increasingly higher rates and this week showed hints of the equity rally losing a bit of its luster. We were active bidders all week at the cheaper absolute yield levels and plan to continue our efforts next week. Such a healthy dose of scheduled supply should provide ample opportunities to do so.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	124%
5 Year	0.86	0.06	0.80	104%
10 Year	2.00	0.01	1.99	101%
30 Year	3.14	0.06	3.08	98%
UST Rates				
2 Year	0.25	0.00	0.25	
5 Year	0.83	-0.07	0.90	
10 Year	1.99	-0.06	2.05	
30 Year	3.22	-0.03	3.25	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$7.77	\$6.67
Competitive	\$1.71	\$1.56
TOTAL	\$9.48	\$8.23

Municipal 30 Day Visible Supply (\$ Bln)	\$11.54	\$11.36
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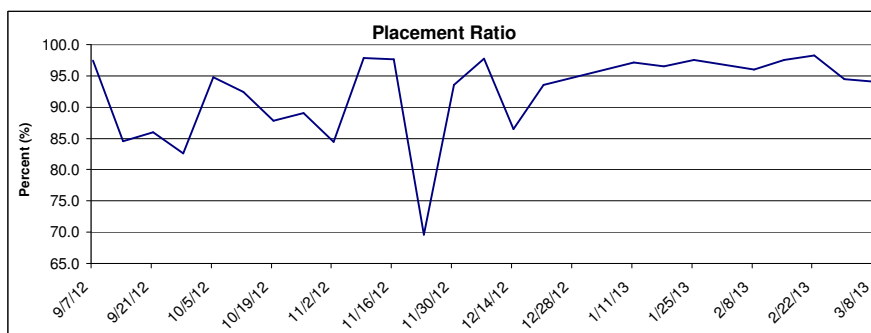
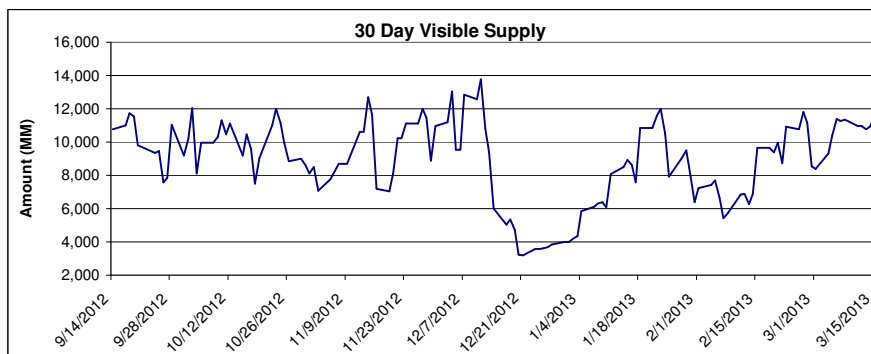
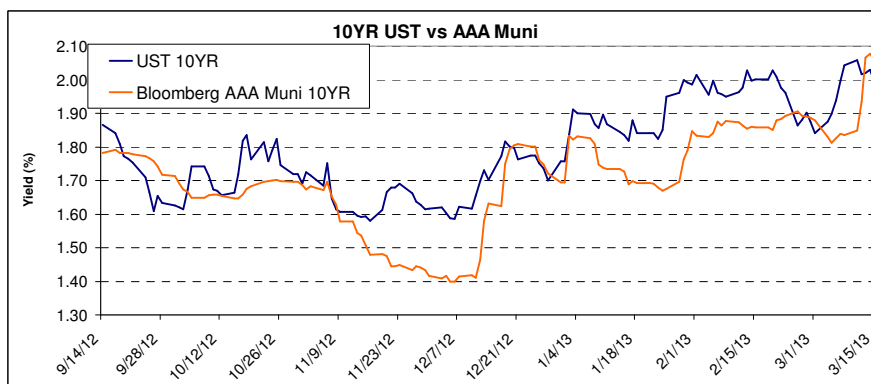
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.92	\$12.39
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Muni Placement Ratio (New Issues)	n/a	94.1%
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Bond Buyer 20 Municipal G.O. Index	4.00%	3.86%
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Select Economic Releases

Date	Event	Period	Survey	Prior
3/19	Housing Starts	Feb	915K	890K
3/19	Building Permits	Feb	923K	925K
3/20	MBA Mortgage Applications	15-Mar	--	-4.7%
3/20	FOMC Rate Decision	20-Mar	0.25%	0.25%
3/21	Initial Jobless Claims	16-Mar	342K	332K
3/21	Continuing Claims	9-Mar	3075K	3024K
3/21	Philadelphia Fed.	Mar	-2.0	-12.5
3/21	Existing Home Sales	Feb	5.00M	4.92M
3/21	Leading Indicators	Feb	0.3%	0.2%



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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