

Trading Desk Commentary

No need to check your calendars – it is most definitely springtime. Who needs a calendar when, like clockwork along with the warmer weather, a new Euro crisis arrives to jolt the financial world out of its winter slumber. It was Greece that did the honors last year, threatening to default on its debt payments and exit the Eurozone. This year it began with Italy's anti-austerity election gridlock, which has now only been exacerbated by the ongoing turmoil in Cyprus. Cyprus represents a fraction of 1% of the EU's production, but Cyprus' leadership has created a problem much bigger than the country's GDP implies. If Cyprus cannot agree on a bailout deal with the European Central Bank and the International Monetary Fund, the country will be facing almost certain failure and its exit from the Euro becomes a real possibility. This has re-inflamed serious concerns over the stability of the Euro currency as a whole and increases fears that the EU's weaker countries could soon be emulating the Cypriot experience. These fears are likely a bit overblown, but the headlines emerging from Europe are undoubtedly taking their toll, especially overseas. A reinvigorated demand for haven assets gripped markets for most of the week, as Cyprus will now try to meet its Monday deadline to form an agreement with its creditors and avoid failure. This past Monday, we overweighted US Treasuries in our Core Plus and Tactical Opportunity ETF strategies versus their respective benchmarks as the Cyprus situation worsened—a decision that ultimately benefited our strategies due to the quality bias that persisted through the week.

The US Treasury market's stability significantly assisted the Municipal sector, which managed with relative ease its largest weekly supply (almost \$10bln) calendar since last December. This week's 800-pound gorilla in the room was the \$1.4bln (A3/A+) New Jersey Turnpike Authority revenue deal, being issued to fund a massive road-widening project in central New Jersey. Despite its enormity, the loan's prices were increased in most maturities by the end of its retail order period – yet another example of fervent demand for debt offering investors attractive yields versus the AAA benchmark. The NJ Turnpike loan's performance this week was truly impressive. Other deals, like the \$500mln (A2/A) New York City Metropolitan Transportation Authority offering, had a little bit tougher time gaining traction - it saw its levels cheapened. But New York has been on an issuance spree in recent weeks, so some of this pushback from investors is likely due to "name fatigue" more than anything. Deals such as the NYC MTA loan seemed to be more of the exception than the rule with widespread talk of highly successful order periods. However, the secondary market seemed to languish with so many investors focused on the massive library of new issuance. Secondary levels painted a slightly weaker picture and likely prevented Munis from enjoying a stronger week. Caprin remained an active participant in the primary and secondary markets all week. Cheap opportunities were to be had with smaller secondary pieces with so much attention paid to the primary, though we had success in the crowded primary as well. The Bond Buyer 30-day visible supply metric fell below \$8bln, a sharp drop relative to where it had been for the past 10 days. Less supply coupled with what promises to be a hectic week in Europe leaves us constructive in the Muni space heading into the Good Friday-shortened week.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	124%
5 Year	0.87	0.01	0.86	110%
10 Year	1.94	-0.06	2.00	102%
30 Year	3.10	-0.04	3.14	99%
UST Rates				
2 Year	0.25	0.00	0.25	
5 Year	0.79	-0.04	0.83	
10 Year	1.91	-0.08	1.99	
30 Year	3.14	-0.08	3.22	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.32	\$7.77
Competitive	\$0.43	\$1.71
TOTAL	\$2.75	\$9.48

Municipal 30 Day Visible Supply (\$ Bln)	\$7.76	\$11.54
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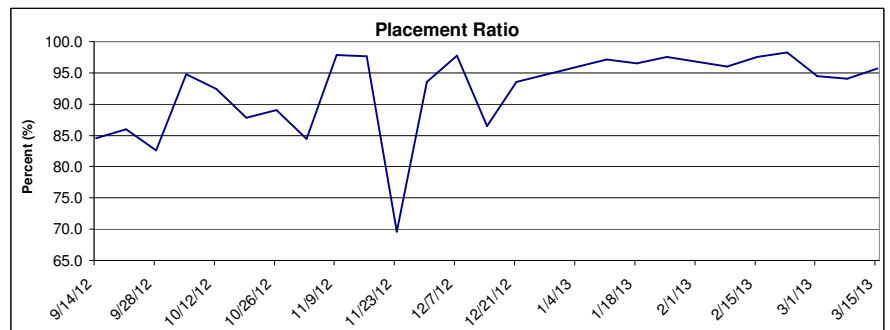
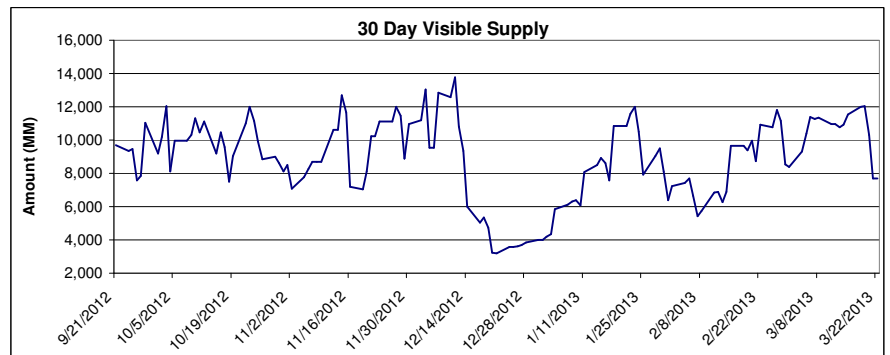
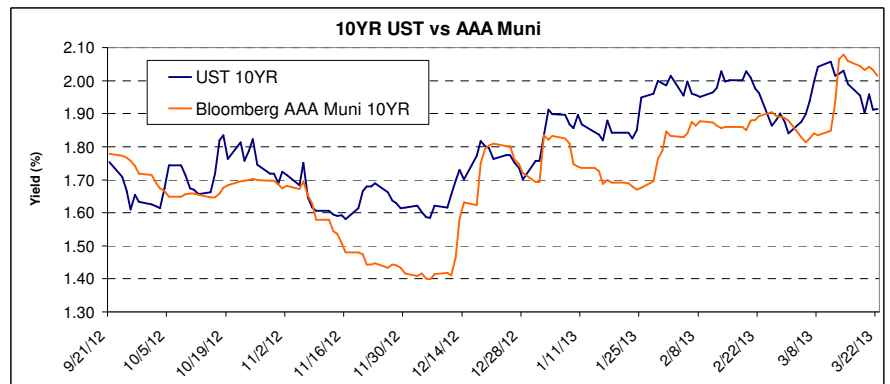
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.40	\$12.92
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Muni Placement Ratio (New Issues)	n/a	95.7%
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Bond Buyer 20 Municipal G.O. Index	3.99%	4.00%
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Select Economic Releases

Date	Event	Period	Survey	Prior
3/26	Durable Goods Orders	Feb	3.9%	-5.2%
3/26	New Home Sales	Feb	424K	437K
3/27	MBA Mortgage Applications	22-Mar	--	-7.1%
3/27	Pending Home Sales MoM	Feb	0.30%	4.50%
3/28	GDP QoQ (Annualized)	4Q T	0.5%	0.1%
3/28	Core PCE QoQ	4Q T	0.9%	0.9%
3/28	Initial Jobless Claims	23-Mar	340K	336K
3/28	Continuing Claims	16-Mar	3042K	3053K
3/29	Personal Income	Feb	0.8%	-3.6%
3/29	Personal Spending	Feb	0.6%	0.2%
3/29	U. of Michigan Confidence	Mar F	73.0	71.8



Caprin Strategy Summary

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