

Trading Desk Commentary

Coming off of last week's hectic pace set by Cyprus fears and the resulting flight to haven assets, this week felt a bit more subdued. As we said last week, the Cyprus situation – and how EU policymakers address it – holds larger implications than just bringing the country's banks back online. Investors want to know if Cyprus is lifting the curtain on what weaker EU economies can expect in the not-too-distant future and how committed the EU appears to maintaining full membership. The questions loomed again this week as Cyprus managed to cobble together a last minute bailout deal – but not without closing the country's second largest bank, Laiki Bank, and potentially wiping out deposits larger than €100,000 that were placed in the bank – an amount totaling over €4bln. It seems very possible that Cyprus will need further bailout funds to remain afloat and strict guidelines to accessing money stored in Cypriot banks will likely be in place going forward to prevent a run. The situation appears contained for now, but nagging questions about the health of the euro have returned to the fore. The recent exuberance in the equity market and better US economic data are encouraging for the US's recovery, but we remain wary of the intermediate term's challenges that could quickly crash the recent "risk on" party – namely Congressional budget negotiations and further complications across the pond.

A firm US Treasury market provided a stable landscape for the Municipal market, which enjoyed a modest rally given the continued demand for quality. New Muni issuance felt manageable, even considering the compressed schedule due to Good Friday. We participated in a handful of AA-rated general obligation and lease revenue deals (for example, (Aa1/AA+) Prince William Co, VA lease revenue loan; (Aa3/NR) Magnolia, TX Independent School District) offering 50-60 basis points (0.50-0.60%) more yield than a AAA GO bond, according to Municipal Market Data. We currently view deals such as these as highly attractive given the strength of the issuers involved as well as the stability of the revenue streams each relies upon to service their debt. These spreads approach some of the trading levels we now see in several large AA hospitals and power names. Given the issuer's taxing authority and ability to raise new revenues if needed, we believe that local GO and appropriation debt are a good bargain when they come to market at these levels. Overall, our survey of this week's primary market paints a picture of strength and ongoing demand in the Muni space. On the negative side, Muniland did have to cope with a barrage of negative headlines regarding the Commonwealth of Puerto Rico. The territory continues to struggle mightily with its fiscal health and pension issues, and have failed to produce a balanced budget for the past decade. Puerto Rico is a formidable presence in the Municipal space with over \$10bln of general obligation debt and roughly \$60bln of total debt outstanding among Puerto Rico's various issuers. The territory's debt is spread throughout many national and state-specific mutual funds around the US. Therefore, its downgrades over the course of the past 20 days to one-notch above junk by Fitch and S&P (with negative outlooks still in place) were notable for many investors. The Commonwealth's bonds have sharply underperformed the broader market in recent weeks and weighed on market tenor for the majority of the week. We do not own any Puerto Rican debt, given its deterioration over the course of the past several years, but we will be monitoring the situation closely, and acknowledge the broad implications its struggles hold for the tax-exempt market. For our more in-depth take on Puerto Rico, please see our most recent publication on the matter released earlier today: <http://www.caprinbonds.com/wp/wp-content/uploads/2013/03/Puerto-Rico.pdf> We hope everyone enjoys their long weekend.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	129%
5 Year	0.84	-0.03	0.87	109%
10 Year	1.91	-0.03	1.94	103%
30 Year	3.09	-0.01	3.10	100%
UST Rates				
2 Year	0.24	-0.01	0.25	
5 Year	0.77	-0.02	0.79	
10 Year	1.86	-0.05	1.91	
30 Year	3.10	-0.04	3.14	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.71	\$2.32
Competitive	\$2.62	\$0.43
TOTAL	\$5.33	\$2.75

Municipal 30 Day Visible Supply (\$ Bln)	\$7.31	\$7.76
---	---------------	---------------

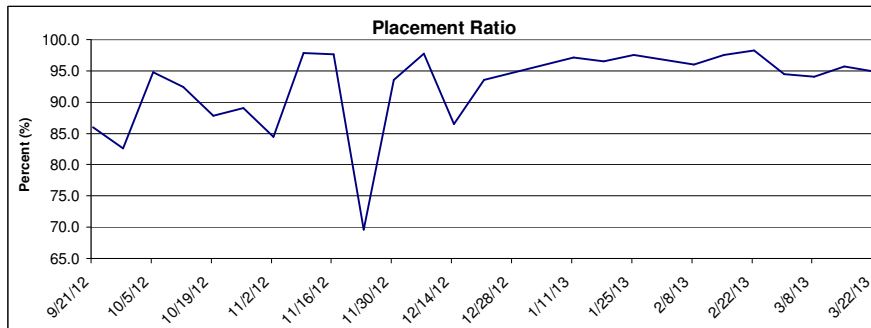
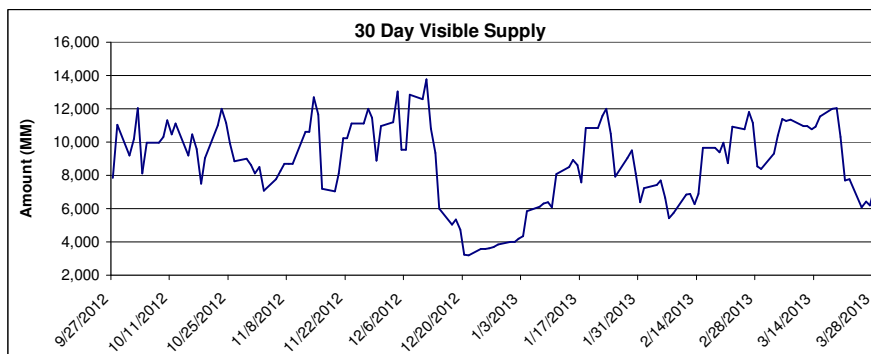
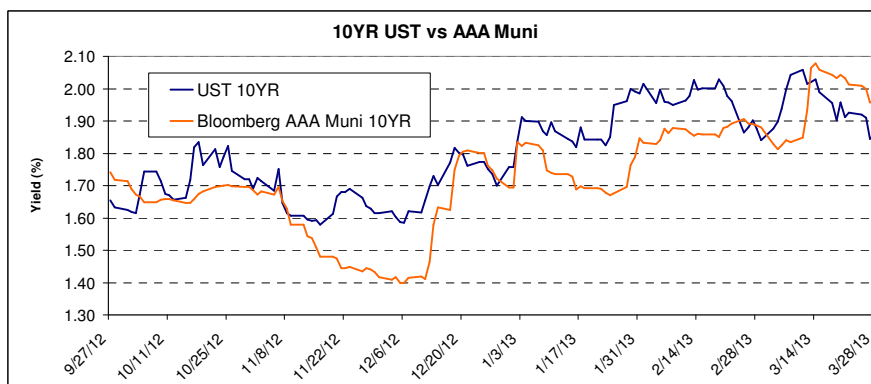
Bloomberg Muni PICK Offerings (\$ Bln)	\$16.24	\$12.40
---	----------------	----------------

Muni Placement Ratio (New Issues)	n/a	94.9%
--	------------	--------------

Bond Buyer 20 Municipal G.O. Index	n/a	3.99%
---	------------	--------------

Select Economic Releases

Date	Event	Period	Survey	Prior
4/1	Construction Spending MoM	Feb	0.8%	-2.1%
4/1	ISM Manufacturing	Mar	54.2	54.2
4/2	Factory Orders	Feb	2.5%	-2.0%
4/3	MBA Mortgage Applications	29-Mar	--	7.70%
4/3	ADP Employment Change	Mar	198K	198K
4/3	ISM Non-Manf. Composite	Mar	56.0	56.0
4/4	Initial Jobless Claims	30-Mar	--	357K
4/4	Continuing Claims	23-Mar	--	3050K



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		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.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.