Weekly Trading Desk Update

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Trading Desk Commentary

With roughly $9bln in new issuance coming to market this week, Muni participants faced challenging supply totals for the second straight week. Though Muni investors seemed to handle last week's $10bln in new issuance admirably, a second consecutive week of elevated loan volume meant that the primary market warranted close surveillance. Moreover, Muni bond funds have seen a significant loss of assets in recent weeks, likely driven by the strength in the equity market and investors sourcing cash from their Muni bond funds to meet April 15th tax obligations. What we saw unfold over the course of this week looked similar to the activity we observed in the week prior – a tale of two stories portrayed by the successes in the Municipal market versus the outflow activity in Muni bond funds. Muni bond fund outflows persisted for a fifth straight week, according to Lipper – unsurprising given the fact that this week's stats include the days leading up to Tax Day. But the activity that we directly monitored in the Municipal bond market painted a more optimistic picture, displaying an ongoing demand for the asset class and a dealer base that successfully distributed a meaningful amount of supply over the five days. As we mentioned in last week's note, the new issuance that came over the past few trading sessions was spread across a broad spectrum, both geographically and sector-wise. There was no $1-3bln bellwether deal that could be singled out and used as a barometer of the market's current tone. Instead, roughly a dozen deals in the $100-500mln range comprised the calendar which helped spread the deals around the street and prevented individual dealers from becoming overwhelmed by any one issue. Retail and institutional order periods were characterized by consistent reports of price bumps and oversubscriptions. The new deal lineup was loaded with sectors traditionally offering investors some incrementally higher yields – airports, hospitals, housing and power revenues. We participated in a $300mln (A1/A+) Novant Health hospital revenue deal that was split between North Carolina and Virginia conduit issuers as well as a $215mln (Aa1/AA+) Tennessee Housing Development Agency that offered almost 100 basis points of incremental yield over Municipal Market Data's AAA benchmark scale. For those with the patience to sift through the large slate of supply, there were some rewarding opportunities to be found. We picked off a handful of secondary pieces as we uncovered some attractive options, but a large amount of our time and energy was deployed in the primary.

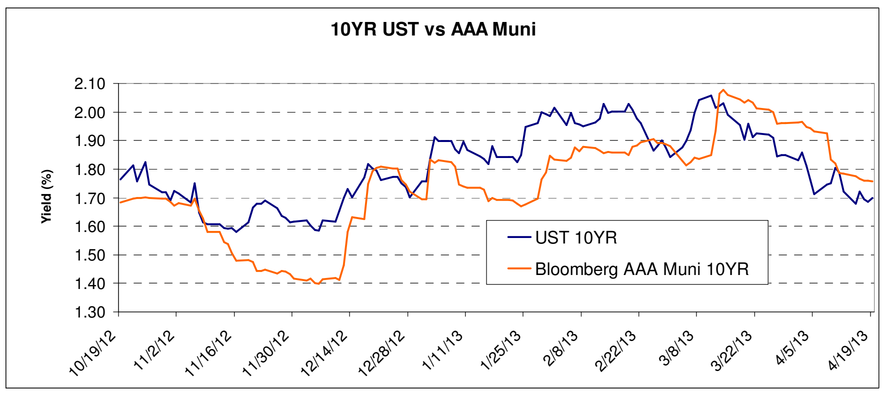
It appears as though we were not alone in our strategy. The secondary market continues to take a back seat to the consistent interest in new issuance and is creating a drag on Muni performance. Though Munis improved modestly over the past few days, one can't help think it could have been a bit better if the primary had not dominated activity to the extent that it did. Still, Munis quietly outperformed the US Treasury market in many spots on the maturity curve though Muni-to-Treasury ratios continue to look enticing. Next week, a healthy amount of new supply is expected but should offer a bit of a respite from the $8-10bln weekly totals. Though the issuance appears to be distributed among a number of mid-sized deals, there are a few high-grade loans that we will be watching closely to gauge interest in quality credits, namely $434mln (Aa2/AA) State of Wisconsin general obligation, $150mln (Aa1/AA+) Virginia Public School Authority revenues, and $100mln (Aa1/AA+) State of Ohio general obligation). Loans such as these will likely offer 10-25 basis points of incremental yield over a AAA GO-type bond, so it will be interesting to see how the yield-starved bidding base receives issues such as these. The overall decline in visible supply should help, as should putting Tax Day in the rearview mirror, but big jobs, housing and GDP numbers will likely play a large part in determining investors appetite in next week's debt markets.

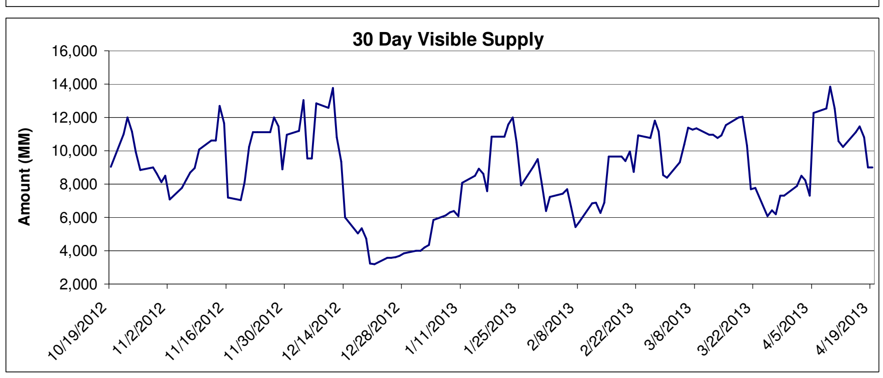
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	126%
5 Year	0.74	-0.02	0.76	106%
10 Year	1.70	-0.02	1.72	100%
30 Year	2.90	-0.04	2.94	101%
UST Rates				
2 Year	0.23	0.00	0.23	
5 Year	0.70	0.01	0.69	
10 Year	1.70	-0.02	1.72	
30 Year	2.88	-0.04	2.92	

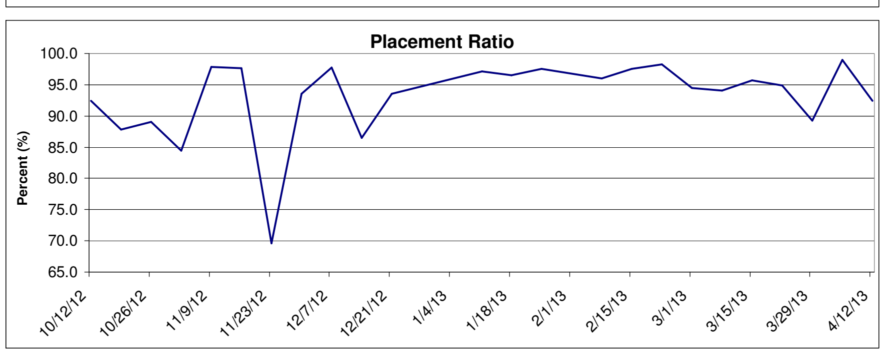
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$4.71	$7.26
Competitive	$2.20	$0.76
TOTAL	**$6.91**	**$8.02**
Municipal 30 Day Visible Supply ($ Bln)	**$8.86**	**$10.24**
Bloomberg Muni PICK Offerings ($ Bln)	**$14.96**	**$17.39**
Muni Placement Ratio (New Issues)	**n/a**	**92.4%**
Bond Buyer 20 Municipal G.O. Index	**3.89%**	**3.93%**

Select Economic Releases

Date	Event	Period	Survey	Prior
4/22	Existing Home Sales	Mar	5.00M	4.98M
4/23	House Price Index MoM	Feb	0.7%	0.6%
4/23	Richmond Fed Manufact. Index	Apr	--	3.0
4/23	New Home Sales	Mar	419K	411K
4/24	MBA Mortgage Applications	19-Apr	--	4.8%
4/24	Durable Goods Orders	Mar	-2.9%	5.7%
4/25	Initial Jobless Claims	20-Apr	351K	352K
4/25	Continuing Claims	13-Apr	--	3068K
4/26	GDP QoQ (Annualized)	1Q A	3.0%	0.4%
4/26	U. of Michigan Confidence	Apr F	73.5	72.3







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

Please refer to the second page for explanations of key measures, sources, and disclosure information.

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.