

Trading Desk Commentary

The long menu of new deals that priced this week spanned a wide spectrum of sector and quality tiers but added up to a very manageable \$5bln total, resulting in yet another successful week for the tax-exempt primary market. For instance, the \$450mln (A2/A+) Dallas/Ft Worth Airport revenue loan, concentrated in longer maturities, saw its asking price increase by the end of its order period due to strong investor demand. The bonds offered buyers anywhere from 80-100bps of incremental yield over the Municipal Market Data AAA scale, just the type of income boost Muni participants continue to covet. Next week looks strikingly similar for expected supply and its composition - roughly \$5bln that is scattered across dozens of issuers. Next week's 800-lb gorilla comes in the form of a \$950mln (Aa2/AA) New York City, New York general obligation deal that will provide a test for the market's appetite for high-grade paper as well as New York-specific paper, traditionally a top-3 state for annual issuance. Beyond that, the average size of the expected deals falls off precipitously, though some recognizable names are included in the list: \$450mln (Aa3/AA-) Department of Water and Power of the City of Los Angeles revenue loan, \$220mln (Aaa/AAA) Price George's County, Maryland general obligations, \$160mln (Aa2/AA) State of Louisiana general obligations, \$120mln (Aa3/AA-) Massachusetts Housing Finance Agency revenues to name a few. Though the deals tend to be on the smaller side, we should get a good idea of current demand among participants in the high-grade arena as well as lesser-rated (higher-yielding) names. Not to mention the fact that we are quickly moving through the month of May and approaching June 1st, the starting line for a traditionally frenzied reinvestment period. If 30-day visible Muni supply continues to hover in the \$6-7bln range for the next several weeks as we enter early June, these supply levels would begin to feel increasingly strained. This would bode well for tax-exempt performance but could eviscerate the pockets of value we have been finding in various new deals and smaller pieces in the secondary.

In summary, it is hard not to feel fairly optimistic about Muniland's near-term prospects. Suppressed supply, healthy current demand, and the prospect of even stronger demand in upcoming weeks continue to drive our overweight to the Muni sector versus Taxables in our Tactical Opportunity ETF strategy. Furthermore, Muni-to-Treasury ratios are such that Munis have room to play a little "catch-up" to US Treasuries recent outperformance, particularly if Munis respond exceedingly well to what appears to be very favorable market conditions. Next week's tone in US Treasuries should continue to look at US economic indicators for guidance while European fears remain at bay. Reports of successful bond auctions in Spain and Italy are only the most recent example of the better tone that has emerged from across the pond - for now. Next week's US calendar is loaded with new housing data, a bright spot in the American recovery story as of late. Should the trend continue, it would help propel investors' ongoing risk bias and open the door for higher yields in the Taxables. In such a scenario, we would expect Munis to perform even better versus US Treasuries, supporting our preference in the Municipal space.

| Muni Rates | Current Wk | Yld Change | Prior Wk | Muni to UST |
|------------|------------|------------|----------|-------------|
| 2 Year | 0.28 | 0.00 | 0.28 | 117% |
| 5 Year | 0.81 | 0.03 | 0.78 | 98% |
| 10 Year | 1.82 | 0.01 | 1.81 | 93% |
| 30 Year | 2.97 | 0.04 | 2.93 | 94% |

UST Rates

| | | | |
|---------|------|------|------|
| 2 Year | 0.24 | 0.00 | 0.24 |
| 5 Year | 0.83 | 0.02 | 0.81 |
| 10 Year | 1.95 | 0.05 | 1.90 |
| 30 Year | 3.16 | 0.06 | 3.10 |

| | Current Wk | Prior Wk |
|---|---------------|---------------|
| Weekly Municipal Supply (\$ Bln) | | |
| Negotiated | \$4.14 | \$4.61 |
| Competitive | \$0.97 | \$1.24 |
| TOTAL | \$5.11 | \$5.85 |

| | | |
|---|---------------|---------------|
| Municipal 30 Day Visible Supply (\$ Bln) | \$7.11 | \$7.20 |
|---|---------------|---------------|

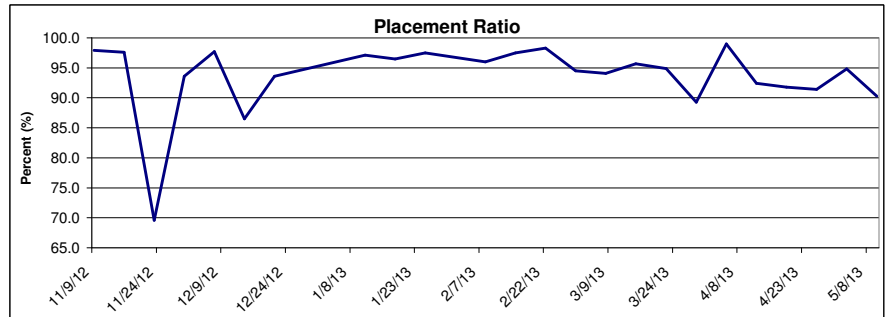
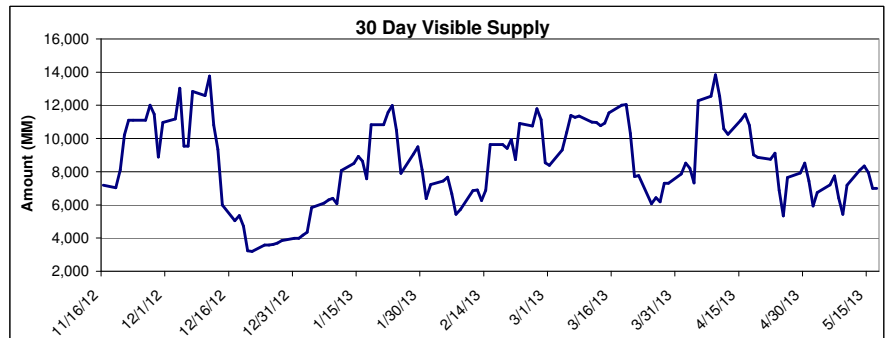
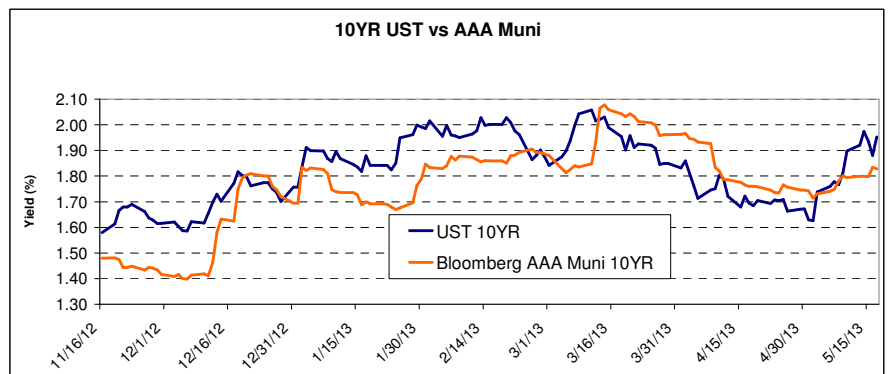
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|---|----------------|----------------|
| Bloomberg Muni PICK Offerings (\$ Bln) | \$12.30 | \$15.61 |
|---|----------------|----------------|

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|--|------------|--------------|
| Muni Placement Ratio (New Issues) | n/a | 90.3% |
|--|------------|--------------|

| | | |
|---|--------------|--------------|
| Bond Buyer 20 Municipal G.O. Index | 3.61% | 3.67% |
|---|--------------|--------------|

Select Economic Releases

| Date | Event | Period | Survey | Prior |
|------|---------------------------|--------|--------|-------|
| 5/22 | MBA Mortgage Applications | 17-May | -- | -7.3% |
| 5/22 | Existing Home Sales | Apr | 4.99M | 4.92M |
| 5/22 | Fed Meeting Minutes | | | |
| 5/23 | Initial Jobless Claims | 18-May | 346K | 360K |
| 5/23 | Continuing Claims | 11-May | 3000K | 3009K |
| 5/23 | House Price Index MoM | Mar | 0.80% | 0.70% |
| 5/23 | New Home Sales | Apr | 425K | 417K |
| 5/24 | Durable Goods Orders | Apr | 1.7% | -5.7% |



Caprin Strategy Summary

| Name | Target Duration Position | Target Maturity Range | Highlights |
|--------------------------|--------------------------|-----------------------|---|
| Short Maturity Muni | 0.85 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 Corporates and TIPS |
| Tactical Opportunity ETF | 2.45 YRS to 7.30 YRS | | Overweight Munis to Taxables, Yield 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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