

Trading Desk Commentary

After an extraordinarily volatile week in US markets, the weekend offers an opportune time for investors to catch their breath and regroup. In the days leading up to this Wednesday's Federal Open Market Committee's meeting and the signature Bernanke press conference, high levels of anticipation and speculation ran rampant over what revelations would emerge. The Fed was well aware of the skittishness that "tapering" talk had already introduced into the system. Whispers of the concept proved potent enough to put the brakes on the 2000-point equity rally in mid-May that had proceeded essentially uninterrupted since the year began. The 10 Year US Treasury bond sold off just below 40 basis points (0.40%) in the weeks between Bernanke's initial tapering comments and this week's Fed meeting. Surely, many participants thought, the Fed would use the opportunity to downplay its May posturing and assure the markets that a) they were overreacting, and b) the Fed was still 100% committed to maintaining ultra low rates and its asset purchasing programs. When Bernanke did neither on Wednesday, markets uniformly revolted. The 10Yr UST jumped more than 30 basis points in two days, arriving at its highest levels since mid-2011 by week's end. The Dow coughed up more than 550 points over the same two day stretch, but rediscovered more steady footing by midday Friday. The Fed is seemingly laying the groundwork for reducing its asset purchase program, which would be viewed as the first step toward tighter monetary policy. The Fed is by far the most influential factor behind the all-time highs in asset prices that we have touched over the last year. Investors have been looking for signs that the central bank is pondering its inevitable downshift in US markets and this week marked the most definitive signal to date.

The formidable weakness in US Treasuries certainly had plenty to do with the sell-off in Muniland; however tax-exempts have their share of sector-specific challenges as well. Concurrent with the US Treasury slump, the Bond Buyer 30-day Visible supply totals crept higher all week, approaching \$14bln today, a large enough number to take notice. Next week alone will account for over \$10bln of the total volume, with a large \$1.3bln (MIG-1/SP-1+) Los Angeles Transportation note, a \$1.3bln (A3/A-) State of Illinois general obligation loan, and the week's postponed \$763mln (A1/AA-) California Health Facilities St. Joseph's Health System revenue deal leading the way. A few of this week's issuers decided to pull their planned issuance in hopes of bringing their debt to market under less stressed conditions. However, this has contributed to the inflated number of deals now expected for the last week of the second quarter. Lipper's report of Muni bond fund flows enduring yet another deluge of outflows (\$2.2bln) would have applied some pressure in a more stable environment and only confounded Muniland's challenges all week. We now sit at the highest Muni yields since August 1, 2011 after today's newest round of downward price adjustments, according to Municipal Market Data. We believe that the bias over the near-term is for higher yields within a newly established range. We have become more defensive in our positioning in an effort to preserve capital as the Fed-driven volatility plays out. However, we also view these Muni yields as an attractive buying opportunity and continue to selectively purchase bonds that agree with our more defensive outlook. Though we currently find the markets (Muni and otherwise) in a hyperactive, sensitive state, clear-eyed investors should have ample opportunities to benefit from this recent volatility. We plan to be one of them.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.43	0.12	0.31	119%
5 Year	1.38	0.27	1.11	98%
10 Year	2.63	0.40	2.23	104%
30 Year	3.96	0.46	3.50	111%
UST Rates				
2 Year	0.36	0.09	0.27	
5 Year	1.41	0.38	1.03	
10 Year	2.52	0.39	2.13	
30 Year	3.57	0.27	3.30	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$9.84	\$5.37
Competitive	\$1.12	\$1.03
TOTAL	\$10.96	\$6.40

Municipal 30 Day Visible Supply (\$ Bln)	\$13.94	\$11.38
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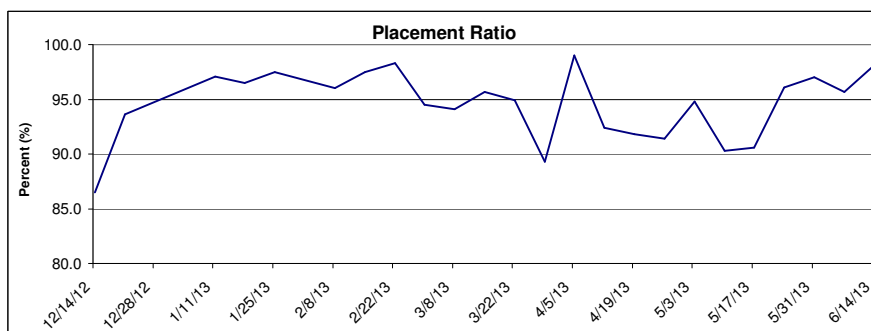
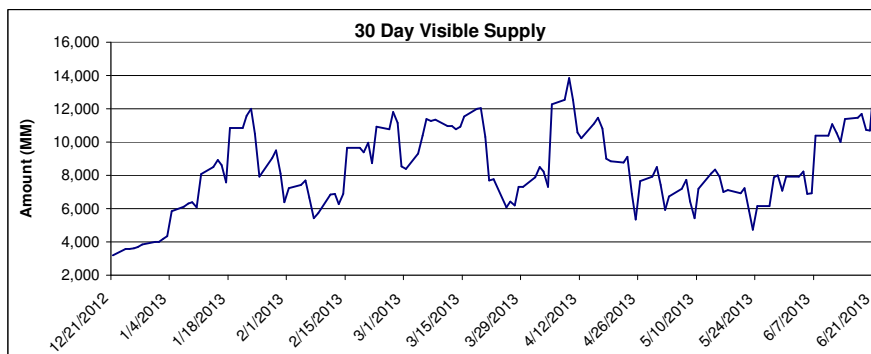
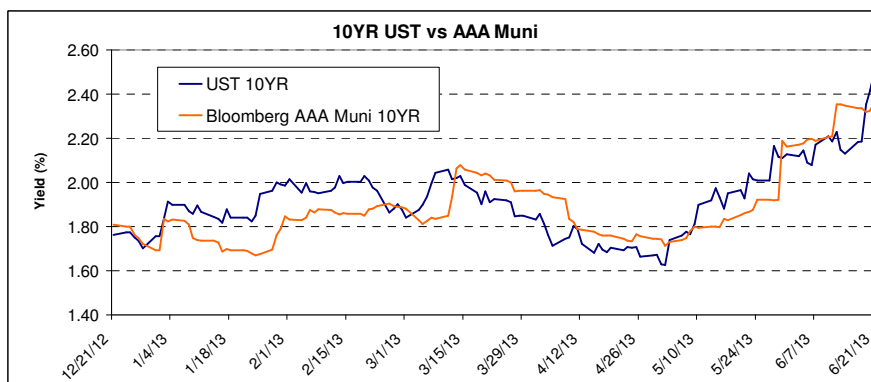
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.07	\$14.87
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Muni Placement Ratio (New Issues)	n/a	98.1%
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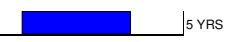









Bond Buyer 20 Municipal G.O. Index	4.37%	4.16%
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Select Economic Releases

Date	Event	Period	Survey	Prior
6/25	Durable Goods Orders	May	3.0%	3.3%
6/25	Consumer Confidence	Jun	75.0	76.2
6/25	New Home Sales	May	460K	454K
6/26	MBA Mortgage Applications	21-Jun	--	-3.3%
6/26	GDP QoQ (Annualized)	1Q T	2.4%	2.4%
6/27	Personal Income	May	0.2%	0.0%
6/27	Personal Spending	May	0.3%	-0.2%
6/27	Initial Jobless Claims	22-Jun	345K	354K
6/27	Pending Home Sales MoM	May	1.0%	0.3%
6/28	U. of Michigan Confidence	Jun F	83.0	82.7



Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min  Max	0 YRS  5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min  Max	0 YRS  5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min  Max	0 YRS  17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Min  Max	0 YRS  12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min  Max		Slight Overweight to CA and NY
Core Plus ETF	Min  Max		Slight Overweight to Corporates and BABs
Tactical Opportunity ETF	Min  Max		Neutral Munis, Underweight Taxables

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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