

Trading Desk Commentary

As expected, Muni activity felt very subdued this week in the days before the Independence Day holiday. This week traditionally sees a marked drop in trading volume and new issuance as many participants select this week for summer vacationing. Issuers typically shy away from bringing new deals the week of July 4th given the sense of apathy prevalent around the holiday. The limited deals that did come were distributed as early as possible and did not cause much commotion. US Treasuries laid low through Wednesday, though traders had their eyes on the jobs numbers waiting for them today following the brief holiday. As we have mentioned before, new jobs data now carries a much greater significance given the emphasis that the Fed has placed on the numbers in making policy decisions. Consensus expected 165,000 new nonfarm jobs created in the month of June, so when the actual number came in 30,000 higher while also revising last month's number up by an additional 20,000, US Treasuries were off to the races. In the market's mind, these jobs numbers keep the predicted Fed "tapering" right on track, with many now expecting a reduction in the Fed's asset purchasing program as early as September. The 10-year US Treasury yield moved higher by more than 20 basis points (0.20%) to a 2.72%, which equates to an almost 2% downward price move. The 10-year US Treasury bond is now offering its highest yield since August 2011. In our hedged strategies, we remain at roughly half the duration of each respective benchmark and believe debt markets remain biased towards higher yields over the near-term.

Muni benchmark scales were slashed in sympathy with the aggressive move in US Treasuries, though limited trading activity allowed tax-exempts to concede less ground. It is reasonable to believe Munis will have to play a little catch-up early next week barring a large rally in US Treasuries in order to maintain recent Muni-to-Treasury ratios. Next week, almost \$7bln in new Muni issuance is expected though we could potentially see some postponements if today's volatility carries over into the next few trading sessions. Some of next week's largest expected deals have been stuck in limbo for close to three weeks now due to recent volatility and this week's attention-diverting holiday. These issuers are likely to be growing anxious as borrowing costs drift higher and their projects' funding is continually delayed. The issues comprising the current calendar are once again spread throughout dozens of borrowers and tend to be on the smaller side, which generally helps with broader distribution of new deals. Assuming issuers pull the trigger on the majority of next week's deals, several healthcare deals (primarily in California and Texas) will warrant a look given the higher absolute yields levels and presumably wider credit spreads relative to 12-month averages. Several more housing, healthcare, and general obligation deals within our state-specific footprint are on the calendar listed as "day-to-day" so it will be hard to predict if/when these deals will come to market. If they do, many of these could offer attractive buying opportunities in states like Virginia, North Carolina and Maryland. For now, our duration and maturity targets remain a more conservative than they have been in some time. The high volatility in US debt markets leave us buying very selectively though the recent rate back-up continues to offer one of the best entry points in some time.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.52	0.02	0.50	133%
5 Year	1.47	0.07	1.40	92%
10 Year	2.66	0.10	2.56	98%
30 Year	3.95	0.12	3.83	107%
UST Rates				
2 Year	0.39	0.04	0.35	
5 Year	1.59	0.19	1.40	
10 Year	2.71	0.21	2.50	
30 Year	3.68	0.17	3.51	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.54	\$0.87
Competitive	\$0.80	\$0.04
TOTAL	\$6.34	\$0.92

Municipal 30 Day Visible Supply (\$ Bln)	\$14.74	\$8.85
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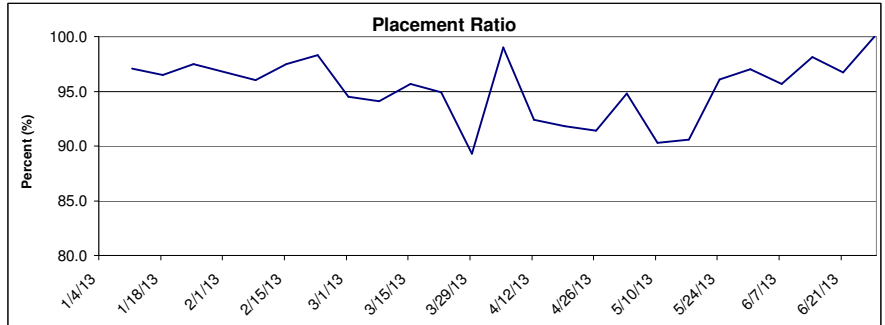
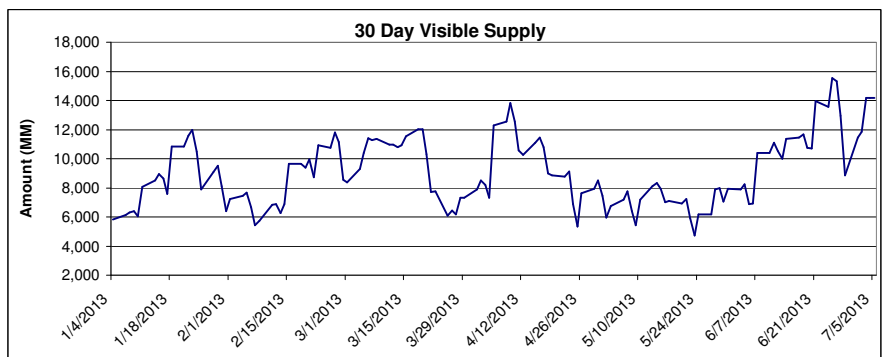
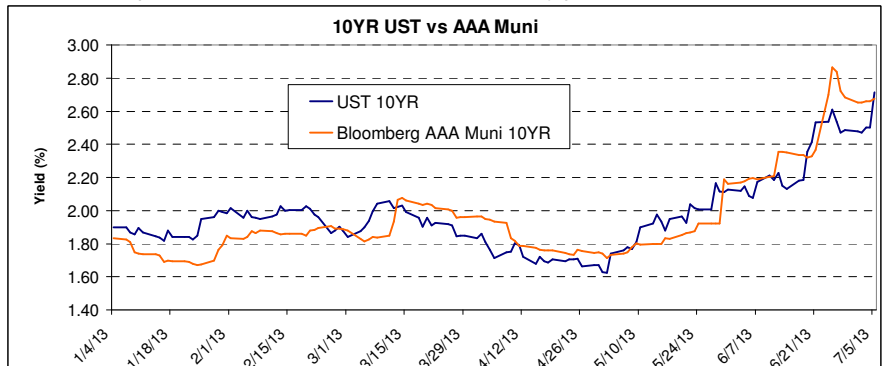
Bloomberg Muni PICK Offerings (\$ Bln)	\$9.57	\$12.29
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Muni Placement Ratio (New Issues)	n/a	100.0%
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Bond Buyer 20 Municipal G.O. Index	4.39%	4.63%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/10	MBA Mortgage Applications	5-Jul	--	-11.7%
7/10	Fed Minutes Release			
7/11	Import Price Index (MoM)	Jun	0.0%	-0.6%
7/11	Initial Jobless Claims	6-Jul	340K	343K
7/11	Continuing Claims	29-Jun	2958K	2933K
7/12	Producer Price Index (MoM)	Jun	0.5%	0.5%
7/12	U. of Michigan Confidence	Jul P	85.0	84.1



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		Slight Overweight 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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