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ETF COMMENTARY | AUGUST 2013

MANAGED ETF PORTFOLIO CHARACTERISTICS**

AS OF: 8/19/2013

Tactical Muni ETF:

Duration: 3.14yrs

Average Maturity: 3.59yrs

Indicated Yield: 2.34%

Blended 30-Day SEC Yield: 1.98%

Core Plus ETF:

Duration: 2.63yrs

Average Maturity: 3.59yrs

Indicated Yield: 1.92%

Blended 30-Day SEC Yield: 1.79%

Tactical Opportunity ETF:

Duration: 3.05yrs

Average Maturity: 4.08yrs

Indicated Yield: 2.35%

Blended 30-Day SEC Yield: 2.03%

**Blended Portfolio Characteristics based upon official Fund data published by each sponsor firm and have been compiled using weighted averages of then current portfolio positioning. These characteristics are believed to be accurate but are not guaranteed.

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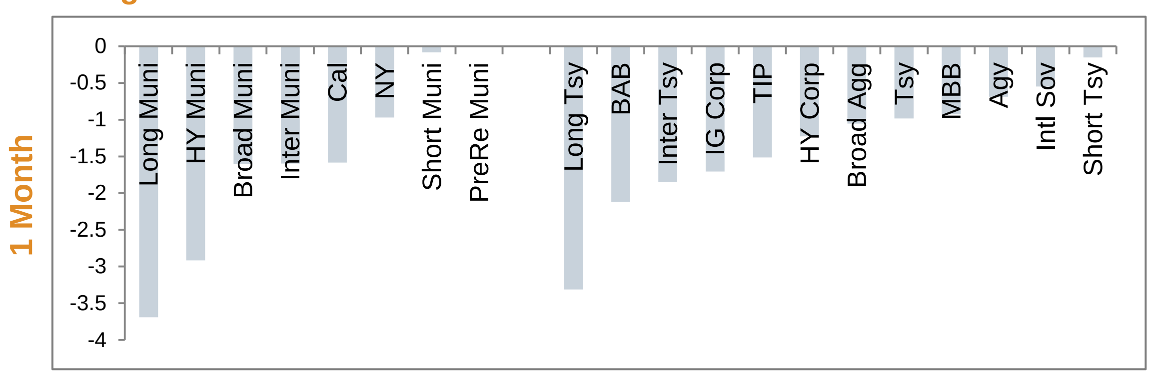
## Strategic Overview

- US Treasury yields now rest near their highest points in more than two years, driven by continued speculation that the Fed will begin reducing its stimulus programs sooner rather than later. US economic releases are carrying greater weight, with the market presuming that the Fed's upcoming decisions will be primarily influenced by whether the US recovery shows signs of weakening. Thus far, data has been somewhat mixed yet sufficiently positive to fuel speculation that a September "tapering" announcement is a distinct possibility.
- If economic releases continue to support the path to tapering, we expect further upward pressure on rates, particularly for maturities longer than 2 years. With such uncertainty for the timing of Fed policy over the next several months, rate markets will struggle to find equilibrium, which leaves us continually reassessing expected trading ranges.
- Lack of clarity from the Fed continues to plague riskier asset classes also. The Dow has fallen over 700 points since its all-time high as of this writing due to concerns over the effect of potentially reducing Fed support. Coupled with a weaker earnings season, Investment Grade and High Yield Corporate ETFs have lagged broad market benchmarks recently after a strong start to the third quarter.
- Relative to benchmarks, our ETF strategies continue to benefit from a defensive position with the use of Inverse UST ETFs. On a net basis, our strategies have been tactically positioned with approximately 50-60% exposure to the market since late June.
- A number of potential curveballs exist:
  - Unrest in the Middle East could reignite another "flight to quality" cycle.
  - The recent upswing in rates might meaningfully upset the housing recovery and delay Fed tapering.
  - Congress will be back in session gearing up for yet another round of budget and debt ceiling battles.

  One or more of these variables could spark a bond market rally, causing a reassessment of our base-case outlook.

## Trending




Source: Bloomberg as of 8/26/13

## Caprin Views