

Trading Desk Commentary

Those looking for a quiet holiday week in the fixed income markets were greatly disappointed over the past four trading sessions. The US Treasury market once again dealt out a volatile week for participants as the 10 Year traded across a more than 20 basis point (.20%) range. The beginning of the week saw the market disregard the mounting tensions in Syria and focus on a handful of economic releases that seemed to further support a possible easing of asset purchases by the Federal Reserve going into their September meeting. We were again reminded this week just how data dependent the current investment world has become. Early in the week, the release of a stronger than anticipated ISM manufacturing number helped catapult the 10 Year UST yield to its highest level since 2011 (slightly above 3.0%), only to see a 10 basis point (.10%) retracement immediately following Friday's softer than anticipated Payroll figure. Investors now have to ask themselves if this change in trajectory for the job market is significant enough to stall a removal of accommodation by the Fed, and if so, for how long? One thing seems certain: volatility will likely persist throughout the fall as we still have not yet even begun another round of debt ceiling and budget debates on Capital Hill. As such, we continue to remain defensive in our core strategies and recognize that volatility often brings opportunities as markets search for equilibrium.

The municipal market had a slightly more muted response to this week's events, seeing the yield on the MMD 10 Year AAA scale move higher by 7 basis points (.07%). This was in large part due to the relatively light activity seen by a small new issue calendar of a little less than \$1.5Bln. Municipal mutual fund outflows did continue to place pressure on the market as we saw just over \$1.3Bln leave the space, a trend that has now continued for 15 straight weeks. Next week's calendar does have the market coming back to life somewhat with approximately \$5.7Bln planning to be sold. The calendar appears to be well diversified from both a geographical and quality standpoint and should offer investors a number of opportunities with no one deal taking center stage. We will continue to monitor supply carefully as it is not unusual to see spikes during the early fall. Supply spikes, coupled with continued outflows from mutual funds, could easily overpower the fragile demand currently in place.

| Muni Rates | Current Wk | Yld Change | Prior Wk | Muni to UST |
|------------|------------|------------|----------|-------------|
| 2 Year | 0.43 | 0.00 | 0.43 | 93% |
| 5 Year | 1.58 | 0.07 | 1.51 | 90% |
| 10 Year | 3.01 | 0.07 | 2.94 | 102% |
| 30 Year | 4.49 | 0.04 | 4.45 | 116% |
| UST Rates | | | | |
| 2 Year | 0.46 | 0.08 | 0.38 | |
| 5 Year | 1.76 | 0.16 | 1.60 | |
| 10 Year | 2.94 | 0.19 | 2.75 | |
| 30 Year | 3.86 | 0.18 | 3.68 | |

| | Current Wk | Prior Wk |
|---|---------------|---------------|
| Weekly Municipal Supply (\$ Bln) | | |
| Negotiated | \$3.62 | \$1.26 |
| Competitive | \$2.08 | \$0.29 |
| TOTAL | \$5.70 | \$1.55 |

| | | |
|---|---------------|---------------|
| Municipal 30 Day Visible Supply (\$ Bln) | \$8.71 | \$5.64 |
|---|---------------|---------------|

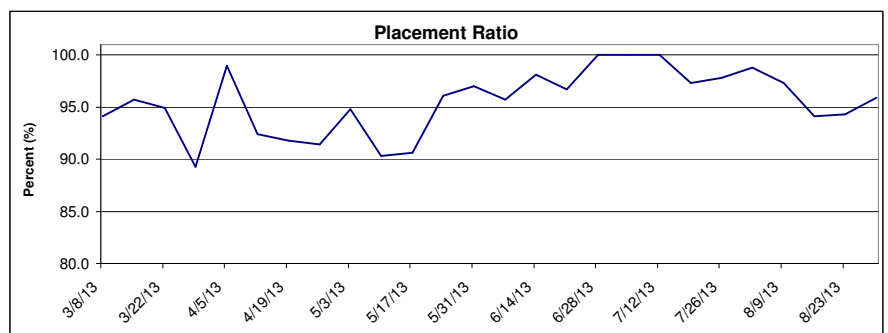
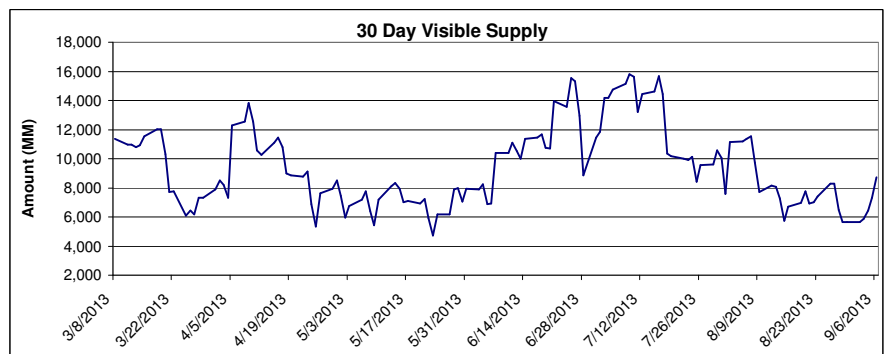
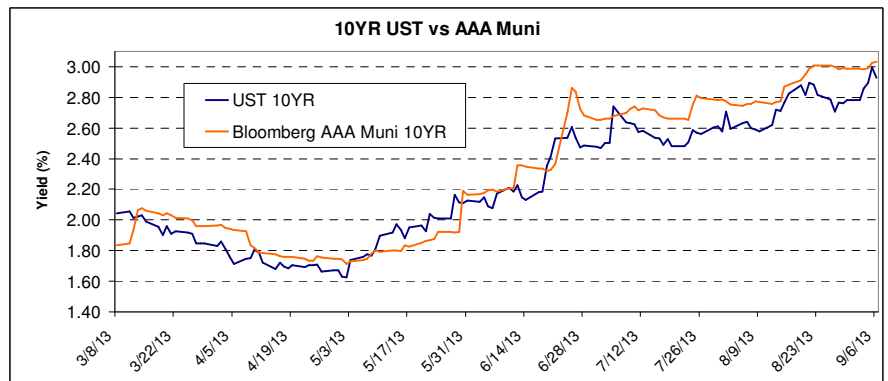
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|---|----------------|----------------|
| Bloomberg Muni PICK Offerings (\$ Bln) | \$15.10 | \$15.22 |
|---|----------------|----------------|

| | | |
|--|------------|--------------|
| Muni Placement Ratio (New Issues) | n/a | 95.9% |
|--|------------|--------------|












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|---|--------------|--------------|
| Bond Buyer 20 Municipal G.O. Index | 5.03% | 4.96% |
|---|--------------|--------------|

Select Economic Releases

| Date | Event | Period | Survey | Prior |
|------|------------------------------|--------|--------|-------|
| 9/11 | MBA Mortgage Applications | 6-Sep | -- | 1.3% |
| 9/12 | Initial Jobless Claims | 7-Sep | 330K | 323K |
| 9/12 | Continuing Claims | 31-Aug | -- | 2951K |
| 9/12 | Import Price Index MoM | Aug | 0.5% | 0.2% |
| 9/13 | PPI MoM | Aug | 0.20% | 0.00% |
| 9/13 | Retail Sales Advance MoM | Aug | 0.4% | 0.2% |
| 9/13 | Univ. of Michigan Confidence | Sep P | 82.4 | 82.1 |



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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