Weekly Trading Desk Update

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Trading Desk Commentary

One of the most eagerly anticipated Federal Reserve meetings in memory brought the fireworks on Wednesday – just not the display the majority of investors expected. Bernanke seemed to be laying the groundwork since late May for a reduction in the Fed's economic stimulus programs at this week's meeting with the caveat that economic activity needed to continue to improve in the meantime. The better jobs and housing numbers in early summer appeared to grant the Fed the affirmation it sought to peel back some of its QE. US Treasury yields spent the summer months trending higher in anticipation of the bond market's biggest participant slowly bowing out. In the few weeks leading up to Wednesday's announcement, some of the data did appear to soften a bit, namely housing releases that likely suffered from the higher mortgage rates and less enthusiastic buyers. Furthermore, greater attention was paid to the decline in the labor force's participation rate and the superficiality of the better employment numbers. Perhaps it was this softer period, the recent geopolitical unrest, or some combination that concerned the central bank, but the Fed went to the precipice and seemingly decided not to jump at the last minute. Tapering was placed on hold with Bernanke blaming recent economic activity that did not warrant stimulus reduction. Bonds immediately rallied on the surprise, and equities surged to all-time highs with the Fed continuing to pump adrenaline into our strained system. For the short-term, this is likely a net positive for asset pieces, but it will only make the Fed's inevitable tapering that much more painful.

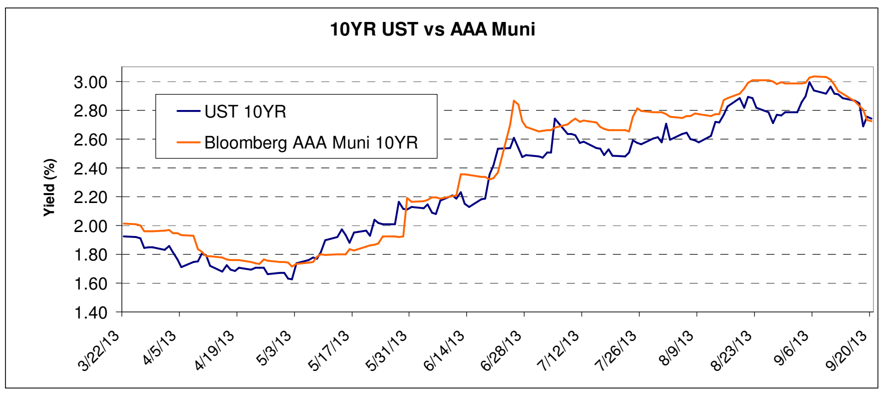
Heading into the announcement we prepared for several scenarios varying from the Fed starting with the expected amount of tapering ($5-10bln reduction), to a more aggressive reduction, to no tapering, and we overlaid these outcomes with our expected trading reaction. We also allowed discretion for how we interpreted the language used in the Fed's statement as well as Bernanke's press conference that soon followed. Broadly speaking, 10-year US Treasury yields established a 2.70-3.00% trading range over the past couple of months as Fed speculation took hold of US debt markets. Upon news that the Fed was here to stay, yields plummeted to around the 2.70% floor and tested it several times throughout the day. Based on our technical analysis, it appeared that a new channel was not being established and that, while we were on the lowest end of the range, yields were having trouble breaking through. Since we tested 2.70%, yields have backed up closer to 2.75%, where they are holding steady as of this writing. The Fed's language was largely unchanged from previous meetings. Beyond the "no taper" surprise and some slightly weaker economic language, the Fed's "slow growth" outlook is intact. And while a taper in 2013 now seems less likely, the Fed is still on the lookout for a good time to trim stimulus. This week's developments leave us positioned much in the way we were before: defensively. The likelihood of a volatile Q4 appears high and we prefer to remain conservative at this time. However, having seen yields approach the low end of recent trends, we are acutely aware of intraday activity and are monitoring the situation very closely. Should the Fed show signs of delaying a taper well off into the future, the Middle East's turmoil intensify or Washington's budget and debt ceiling debates plague markets yet again, we could conceivably make a change to our posture. Today's bond markets require deep scrutiny on a wide number of fronts. We remain fiercely committed to navigating our clients through these unprecedented times.

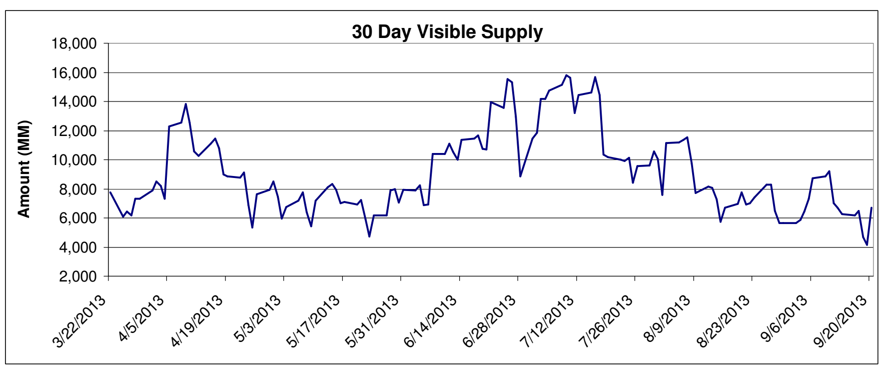
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.36	-0.07	0.43	100%
5 Year	1.35	-0.19	1.54	91%
10 Year	2.60	-0.23	2.83	95%
30 Year	4.20	-0.19	4.39	111%
UST Rates				
2 Year	0.36	-0.08	0.44	
5 Year	1.48	-0.22	1.70	
10 Year	2.74	-0.15	2.89	
30 Year	3.77	-0.08	3.85	

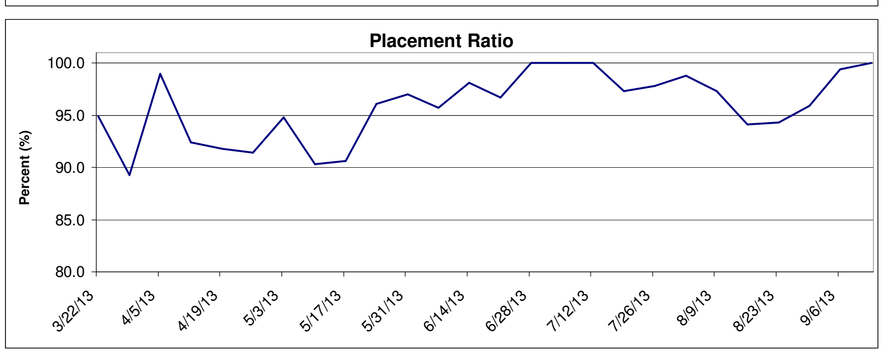
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$3.41	$1.91
Competitive	$0.61	$1.28
TOTAL	**$4.02**	**$3.19**
Municipal 30 Day Visible Supply ($ Bln)	**$6.69**	**$6.27**
Bloomberg Muni PICK Offerings ($ Bln)	**$12.57**	**$11.46**
Muni Placement Ratio (New Issues)	**n/a**	**100.0%**
Bond Buyer 20 Municipal G.O. Index	**4.66%**	**4.93%**

Select Economic Releases

Date	Event	Period	Survey	Prior
9/24	House Price Index MoM	Jul	0.8%	0.7%
9/24	Richmond Fed Index	Sep	11.0	14.0
9/24	Consumer Confidence Index	Sep	80.0	81.5
9/25	MBA Mortgage Applications	20-Sep	--	11.2%
9/25	Durable Goods Orders	Aug	-0.20%	-7.30%
9/25	New Home Sales	Aug	420K	394K
9/26	Initial Jobless Claims	21-Sep	325K	309K
9/26	GDP Annualized QoQ	2Q T	2.6%	2.5%
9/26	Pending Home Sales MoM	Aug	-1.0%	-1.3%
9/27	Univ. of Michigan Confidence	Sep F	78.0	76.8







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

Please refer to the second page for explanations of key measures, sources, and disclosure information.

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.