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Weekly Trading Desk Update

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Peyton Studebaker, Director of Trading   Chip Hughey, Trading
Media contact: Adam Plotkin aplotkin@caprinbonds.com

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Trading Desk Commentary

Though Congress and the Obama administration have finally exited stage left after their mind-numbing show, the effects of their flirt with disaster are still tangible a week later. Washington's fiasco has fundamentally altered rate outlooks heading into year-end. For one, the Fed is suggesting that the dysfunctional leadership in Washington remains a primary reason to preserve its accommodative stance by maintaining its asset purchases and suppressing US borrowing rates. On top of Bernanke's present positioning, most view Yellen's Fed Chairman nomination as even more affirmation that tapering anytime in 2013 is very unlikely. Economic data looks mediocre at best, meaning tapering based on the merits of the economy's underlying strength would be difficult to do, at least in the near-term. This all seems to add up to a constructive bond market outlook as we run headlong into the holiday season, which typically ushers in a stark drop in trading activity. The next round of debt ceiling debates does not look like it will rear its ugly head until early 2014 – so far away, yet so close. Right now, this looks like the largest threat on the horizon to the stability we are currently enjoying. In other words, we have become our own worst enemy. We expect the Fed to maintain status quo at next week's meeting with no changes in its target rate or asset purchasing programs.

Given our expectation of a heavily involved Fed and weaker economic signals, we have become less defensive in the duration positioning in our more tactical strategies. Where we were roughly 50% of our benchmarks' duration, we are now closer to 75%. We want to acknowledge the change in our short-term rate outlook, while still striving to protect capital from the threats that still loom. Tapering is not a matter of "if" but "when." Our long-term expectations still foresee upward pressure in bond yields, though those pressures appear to have been delayed in comparison to our thoughts this summer. The situation remains fluid, and we continue to update our expectations on a daily basis.

Municipals are not only reaping the benefits of a solid US Treasury backdrop but also a declining visible supply volume. Bond Buyer has reported a precipitous drop in expected supply over the next thirty days ($7.59bln today, significantly lower than the $12.6bln we saw earlier this week). The recent increase in demand for haven assets coupled with less available primary issuance should further support the tax-exempt space. Dealers navigated a fairly crowded issuance week, at lease relative to some of the weekly flow we have been seeing. New loans (both competitive and negotiated) seemed to fare very well. After California adjusted its prices to more palatable levels, the $2.2bln behemoth seemed to generate a lot of buzz and traded well in the secondary. Even Puerto Rico debt, which has been through the ringer as of late due to its severe budgetary struggles, traded at improved levels. Though Puerto Rican leadership appears to be taking steps to address their challenges and the US has shown some willingness to help, we are still not a buyer of the commonwealth's debt. This week's trading depicts a rejuvenated Muni bond market and (barring a shock out of the Fed come Wednesday) we would expect the foundation laid this week to carry over into the last week of October.

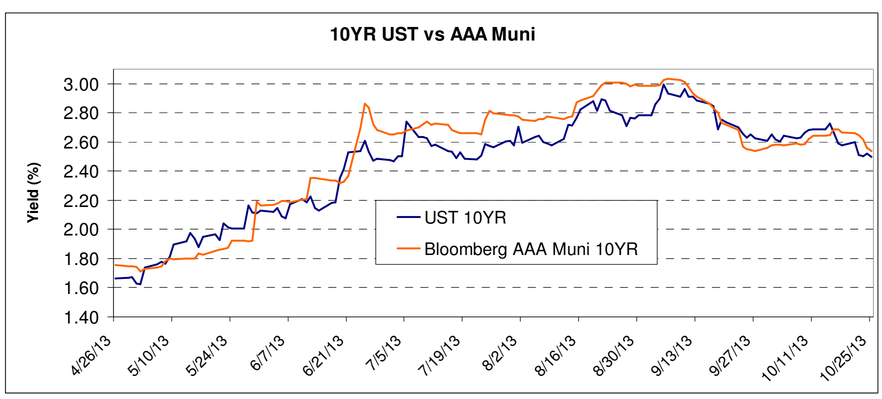
Caprin Strategy Summary

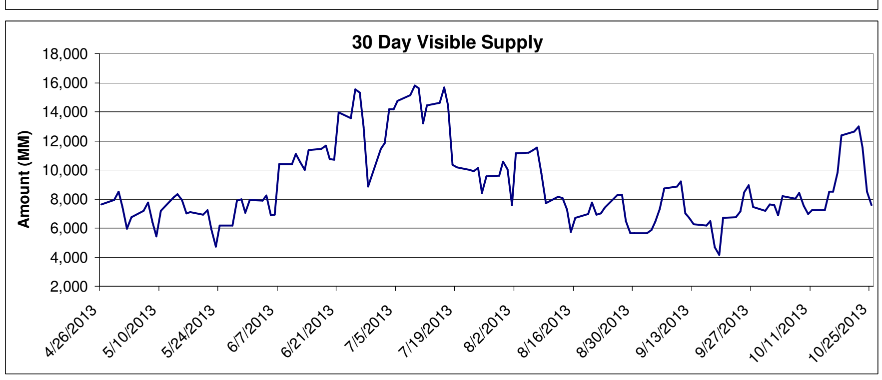
Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min – Max	0 YRS – 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min – Max	0 YRS – 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min – Max	0 YRS – 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s 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
Tactical Opportunity ETF	Min – Max		Equal Weight Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.35	0.00	0.35	113%
5 Year	1.13	-0.13	1.26	88%
10 Year	2.49	-0.11	2.60	100%
30 Year	4.07	-0.15	4.22	113%
UST Rates				
2 Year	0.31	0.00	0.31	
5 Year	1.28	-0.06	1.34	
10 Year	2.50	-0.09	2.59	
30 Year	3.59	-0.06	3.65	

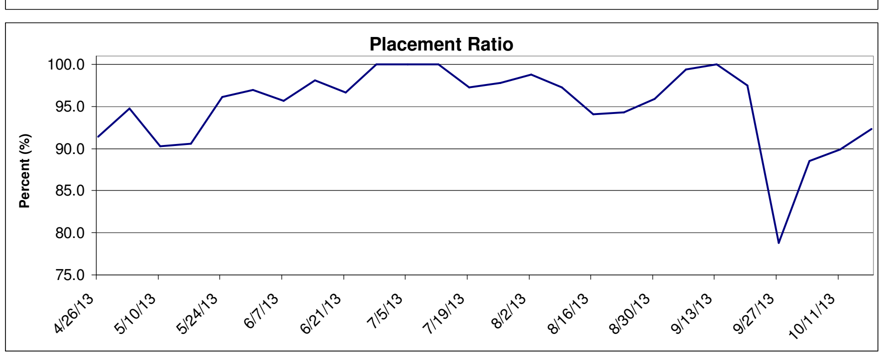
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$3.33	$3.43
Competitive	$0.87	$2.12
TOTAL	**$4.20**	**$5.55**
Municipal 30 Day Visible Supply ($ Bln)	**$7.59**	**$12.36**
Bloomberg Muni PICK Offerings ($ Bln)	**$12.20**	**$13.33**
Muni Placement Ratio (New Issues)	**n/a**	**92.3%**
Bond Buyer 20 Municipal G.O. Index	**4.56%**	**4.68%**





Select Economic Releases

Date	Event	Period	Survey	Prior
10/28	Pending Home Sales MoM	Sep	-0.2%	-1.6%
10/29	PPI MoM	Sep	0.2%	0.3%
10/29	Retail Sales Advance MoM	Sep	0.0%	0.2%
10/29	Consumer Confidence Index	Oct	75.0	79.7
10/30	MBA Mortgage Applications	25-Oct	--	-0.60%
10/30	ADP Employment Change	Oct	150K	166K
10/30	CPI MoM	Sep	0.20%	0.10%
10/30	FOMC Rate Decision	30-Oct	0.25%	0.25%
10/31	Initial Jobless Claims	26-Oct	340K	350K
10/31	Continuing Claims	18-Oct	--	2874K
11/1	ISM Manufacturing	Oct	55.0	56.2



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.