Weekly Trading Desk Update

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Trading Desk Commentary

The first full week of December continued the trend of higher US Treasury yields, driven by better-than-expected US economic data that revises traders' taper timing expectations. The week ushered in several examples of strong data spread across the housing and labor sectors as well as a meaningfully better-than-survey GDP print. US Treasury yields approached 3-month highs as the week progressed. A big ADP Employment print on Wednesday appeared to set the table for an upside surprise in the week's most widely anticipated economic release: Nonfarm Payrolls. The number came in better than expected at 203k vs. the 185k survey. The solid print was not overly surprising but, to many, the US Treasury reaction was surprising. After a knee-jerk sell off to a 2.92%, the 10-Year US Treasury performed an about-face and rallied to a 2.85% by day's end. It appears US Treasuries had become oversold due to overly optimistic expectations surrounding today's jobs print. Even a tick down to 7.0% in the Unemployment Rate couldn't prevent the rally. Had the Nonfarm data been in the 250k+ range, traders would have likely speculated that the Fed would have no choice but to announce tapering at their meeting in two weeks. Instead, the number was close enough to survey that, at the very least, bond activity was bifurcated on what the data will mean for Fed stimulus reduction. Our stance has not changed. We view the possibility of a December taper as rather remote. Early 2014 remains our base case. However, we acknowledge that data over the past several weeks has established a more favorable trend. While today did not mark a monumental shift in our outlook, we do believe that fundamentals may lead us to shorter durations sooner than we were thinking just a few weeks ago.

The weaker US Treasury backdrop created some opportunity in Muniland. We bought several lease revenue positions and bid odd lots all week. We like the idea of getting money to work at current yields which are at their highest point since early September. These purchases are still being executed within a narrower maturity window. Our goal right now is to inject income into our portfolios without moving too far out the yield curve. We are looking to take on measured credit risk to help offset the yield we are foregoing in longer maturities while not exposing our clients to the heightened interest rate risk of longer bonds. We remain in a volatile period and remain positioned conservatively. Though the exact timing is tough to pin down, we still believe the next significant move in rates is likely to be higher rather than lower. We strive to position accounts for this outlook. According to Bond Buyer, Muniland can expect $13.8bln in new loans in December, not a number to overlook. Digging into its composition, the supply picture is not as robust as it looks on first pass. Several of the larger deals are concentrated in long maturities while other large loans are variable rate. True intermediate supply should be digestible, even as demand dwindles towards the end of the year. Lipper reported Muni outflows north of $1bln for the past week and that remains a concern. This "faster money" continues to apply pressure via funds' forced selling while new debt continues to look for a home. Next week's $11bln in new loans will provide a solid test for tax-exempts where we will see if any follow-through exists from today's firmer tone.

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		**Slight Overweight Taxables to Munis**

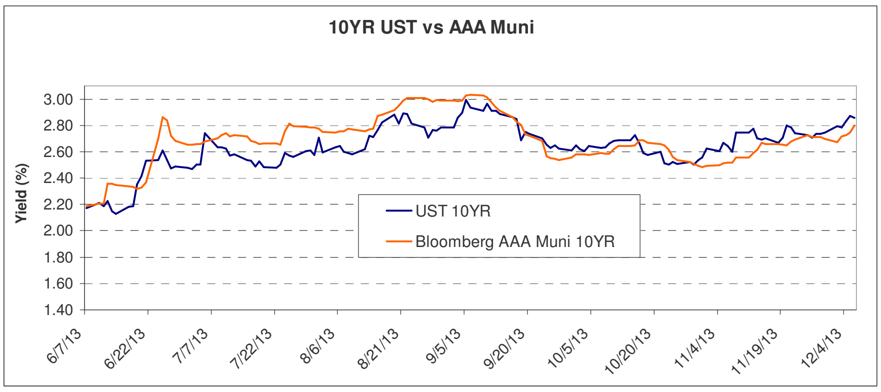
Market Overview

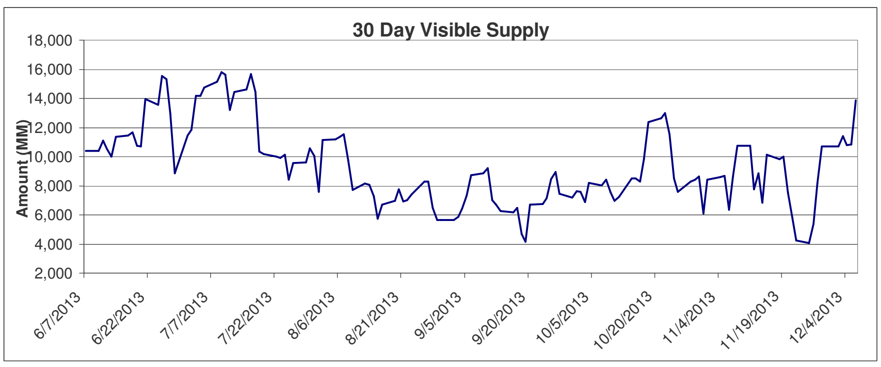
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.33	0.00	0.33	110%
5 Year	1.20	0.04	1.16	81%
10 Year	2.76	0.11	2.65	96%
30 Year	4.20	0.10	4.10	107%
UST Rates				
2 Year	0.30	0.02	0.28	
5 Year	1.49	0.12	1.37	
10 Year	2.87	0.13	2.74	
30 Year	3.91	0.10	3.81	

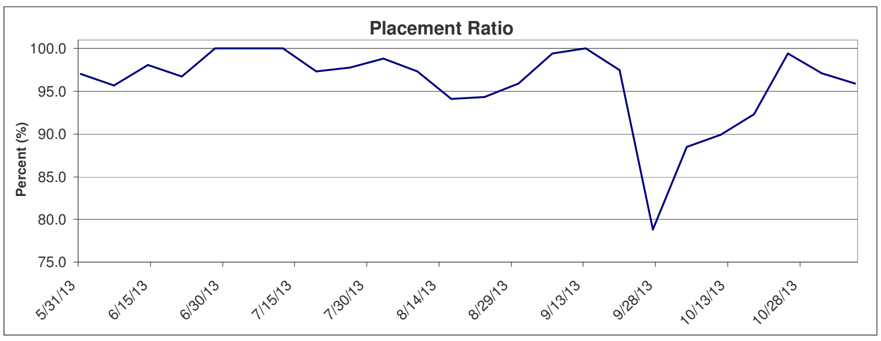
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$9.23	$0.13
Competitive	$0.82	$0.39
TOTAL	**$10.05**	**$0.52**
Municipal 30 Day Visible Supply ($ Bln)	**$13.82**	**$10.71**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.45**	**$10.49**
Muni Placement Ratio (New Issues)	**n/a**	**95.9%**
Bond Buyer 20 Municipal G.O. Index	**4.70%**	**4.61%**

Select Economic Releases

Date	Event	Period	Survey	Prior
12/10	Wholesale Inventories	Oct	0.3%	0.4%
12/11	MBA Mortgage Applications	6-Dec	--	-12.8%
12/12	Initial Jobless Claims	7-Dec	320K	298K
12/12	Retail Sales Advance	Nov	0.6%	0.4%
12/12	Import Price index	Nov	-0.8%	-0.7%
12/12	Continuing Claims	30-Nov	2764K	2744K
12/13	PPI	Nov	0.0%	-0.2%







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.