

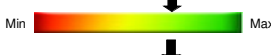


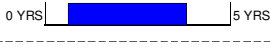
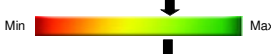

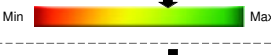
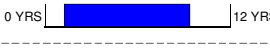
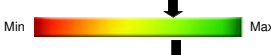


Trading Desk Commentary

US Treasury yields nudged slightly higher this week as economic data created a mixed picture. Retail sales came in slightly better than expected on Thursday though Friday's underwhelming PPI number had US Treasuries recovering some of their losses from the day prior. Traders are still rigorously monitoring data and repositioning based on evolving taper expectations. As we approach next week's Fed meeting, the taper talk has kicked back into high gear. One of the primary factors which had the Fed backing away from a September taper was the budget gridlock in DC. However, House Budget Chairman Paul Ryan and Senate Budget Committee Chairwoman Patty Murray put forth a plan this week that easily passed in the House and will be up for a Senate vote next week. The deal removes the threat of a government shutdown for two years, though both sides agree that the budget plan is light in the areas of deficit reduction and spending reform. Still, it is a rare example of getting a budget compromise across party lines. How much comfort the small improvement provides the Fed ahead of next week's meeting remains to be seen.

It seems everyone is putting forth their expectations for the Fed announcement next week so we will offer ours. The likelihood of a December taper is probably higher today than it was a week ago given recent developments. Both perceived and real economic health, however, remain fluid. It would be unwise to completely discount the budget plan offered up or to ignore the slightly positive trends in economic data, especially from the jobs sector. On the other hand, inflation remains well below the Fed's target and is showing no indications of accelerating. And although last Friday's jobs report was a solid number, it was by no means earth-shattering. Furthermore, we think that the current Fed will pass the torch with its buying program intact and allow Mrs. Yellen and her governors to decide if and when to draw down QE. In sum, we believe the Fed will taper in early 2014 but do not believe it will do so next week. Along with everyone else, we will be closely listening when Chairman Bernanke addresses the public next Wednesday at 2:30pm following the FOMC decision.

Municipals navigated a large number of new deals this week and were aided by benign US Treasury trading. The traditional bond market continues to operate in contrast to the persistent outflows from Muni bond funds. Lipper reported just under \$2bln in Muni outflows this week, bringing the total of 29 straight weeks of outflows to over \$60bln. Meanwhile, participants continue to easily digest new issuance, even in a heavy supply week like this one where \$12bln in new debt came and went without any commotion. Since the beginning of November, traders have priced an increasing likelihood of tapering into yields (roughly 30 basis points in the AAA MMD 10-year spot). This has helped keep Muni buyers engaged as the sector now offers some of its most enticing yields since mid-September. Our bond buying strategy continues last week's themes with an emphasis on roughly A-rated or better revenue names with incremental yield – hospitals, power, education, essential purpose revenues and housing bonds. All of this activity remains in a narrower maturity range than earlier in the year when upward rate pressures were subdued. Next week, we are expecting only \$2.6bln in supply, marking the beginning of the holiday season when issuance typically goes dormant. Of course, tax-exempt trading and supply dynamics will not be the primary driver of the Muni tone heading into year end. That will likely remain squarely with the Fed.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni		0 YRS  5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable		0 YRS  5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni		0 YRS  17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable		0 YRS  12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF			Slight Overweight to CA
Core Plus ETF			Slight Overweight to Corporates
Tactical Opportunity ETF			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	103%
5 Year	1.18	-0.02	1.20	77%
10 Year	2.71	-0.05	2.76	95%
30 Year	4.14	-0.06	4.20	107%
UST Rates				
2 Year	0.32	0.02	0.30	
5 Year	1.53	0.04	1.49	
10 Year	2.86	0.01	2.85	
30 Year	3.87	-0.04	3.91	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$1.52	\$9.23
Competitive	\$0.78	\$0.82
TOTAL	\$2.30	\$10.05

Municipal 30 Day Visible Supply (\$ Bln)	\$7.72	\$13.82
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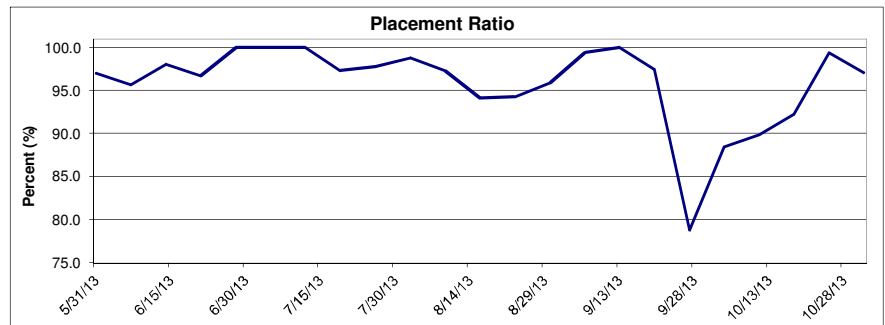
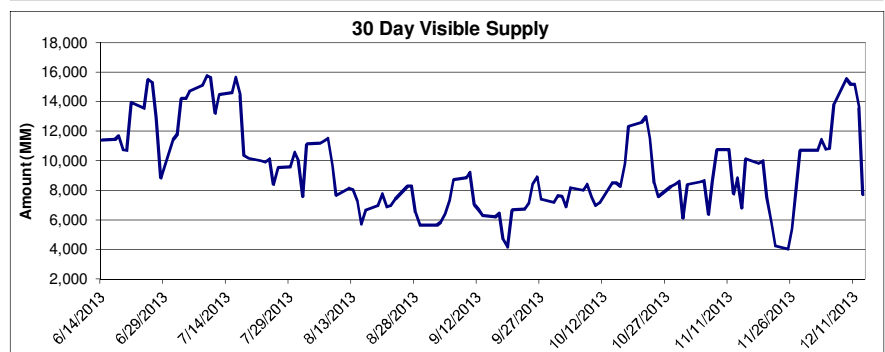
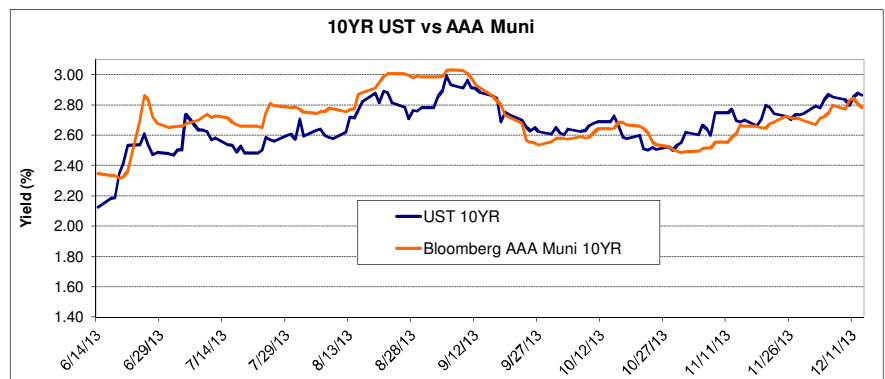
Bloomberg Muni PICK Offerings (\$ Bln)	\$10.82	\$13.45
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Muni Placement Ratio (New Issues)	n/a	95.9%
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Bond Buyer 20 Municipal G.O. Index	4.74%	4.70%
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Select Economic Releases

Date	Event	Period	Survey	Prior
12/16	Empire Manufacturing	Dec	5.00	-2.21
12/16	Industrial Production	Nov	0.60%	-0.10%
12/17	CPI	Nov	0.10%	-0.10%
12/18	MBA Mortgage Applications	13-Dec	--	1.00%
12/18	Housing Starts	Nov	950K	--
12/18	FOMC Rate Decision	18-Dec	0.25%	0.25%
12/19	Initial Jobless Claims	14-Dec	330K	368K
12/19	Existing Home Sales	Nov	5.02M	5.12M
12/19	Leading Index	Nov	0.70%	0.20%
12/19	Philadelphia Fed Bus Outlook	Dec	10.00	6.50
12/20	GDP Annualized	3Q T	3.60%	3.60%



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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