Weekly Trading Desk Update

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Trading Desk Commentary

Let's say investors gazed into their crystal ball on Monday and saw that the Dow would have closed the week up 500 points, and that they also saw the 10-year US Treasury relatively unchanged from Monday to Friday. What action would they have assumed the Federal Reserve took mid-week? On its own terms, it sounds like the would have Fed maintained the status quo and delayed tapering yet again. And one would assume participants now would be looking toward the Yellen era at the Fed, an era expected by most accounts to be even more dovish than the preceding regime, right? Wrong. The central bank's voting members endorsed the beginning of tapering 9-1 in the name of recent improvement in economic activity and job creation.

We believed that the Federal Open Market Committee would wait to announce the taper until 2014, and it was our prediction that Bernanke would not play 'The Grinch' around the holidays and risk upsetting a happy US equity market or risk sending interest rates higher following some disappointing housing data. After all, Yellen had already voiced her strong support for the use of QE, so why would Bernanke feel rushed to enact an incremental decrease in stimulus when the risks seemed to outweigh the potential benefit? In an interesting maneuver, the Fed found a way to start taking their foot off the stimulus accelerator without upsetting the herd. That solution was to trim the their asset purchases by a total of $10bln ($5bln US Treasuries and $5bln mortgages) while ramping up the dovish language in its Fed funds outlook. We were somewhat surprised by the decision but stayed defensive (slightly short in our duration profile) due to the uncertainty and importance of this particular Fed's decision. However, the Fed's emphasis on a very benign inflation outlook dramatically softened the blow from the taper decision. Though the Fed will be providing less support via asset purchases (and looking to continue these reductions, data permitting), it has pledged to keep their target rates low into 2015 and possibly even 2016. The Fed will be less accommodative in 2014 than 2013, but that is not to say that they will not still be very, very supportive of the recovery and asset prices.

Municipals wound down as the week progressed and will be a ghost town next week given the Christmas holiday. Essentially no supply will be available to sift through in the chopped up week, and The Bond Buyer's 30-day visible supply is hovering around a negligible $3bln. From the Muni market's perspective, this year is all but over, and desks will be lightly staffed until 2014 rolls around. We did participate in a few new issues this week – a $123mln (Aa2/AA) Hamilton County Ohio Cincinnati Children's Hospital revenue deal offered some value; however, the strong interest in the deal limited the amount of bonds each order was allotted. Again, if a rarer issuer brings a deal offering some incremental yield, a strong appetite still exists for the debt. Limited supply plagued the Muni market all year – or supported it amidst a weak US Treasury backdrop depending on how you look at it. Heavy supply could have further weighed on an asset class with plenty already on its plate. Lipper reported that Muni fund outflows hit a 30th straight week, seeing another $1.7bln in divestments. At some point, this metric will stabilize but it does not appear it will be in 2013.

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
Core Plus ETF	Min – Max		Slight Overweight to Corporates
Tactical Opportunity ETF	Min – Max		Slight Overweight Taxables to Munis

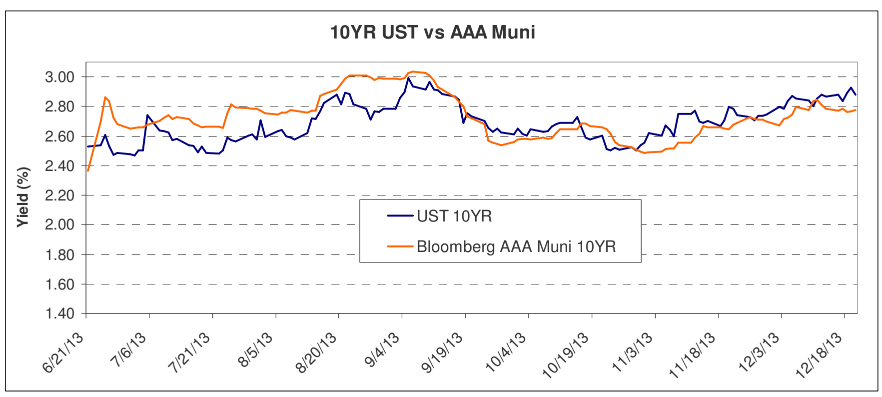
Market Overview

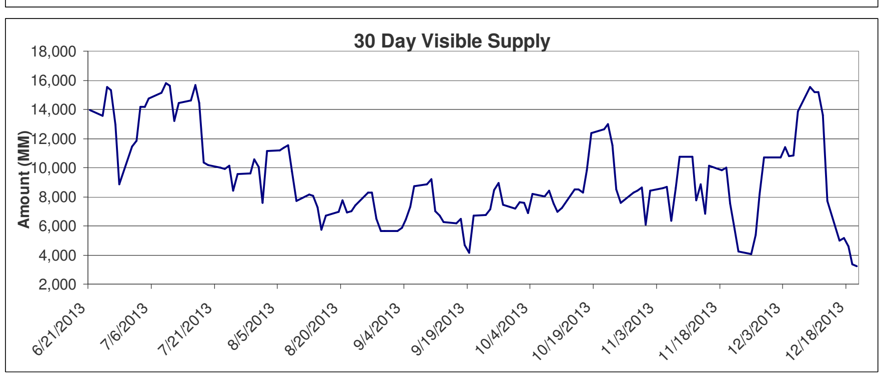
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.33	0.00	0.33	89%
5 Year	1.22	0.04	1.18	73%
10 Year	2.75	0.04	2.71	95%
30 Year	4.18	0.04	4.14	109%
UST Rates				
2 Year	0.37	0.05	0.32	
5 Year	1.67	0.14	1.53	
10 Year	2.88	0.02	2.86	
30 Year	3.82	-0.05	3.87	

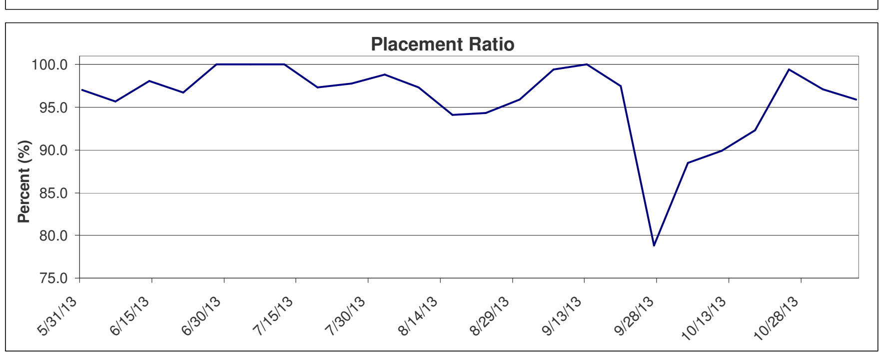
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	N/A	$1.52
Competitive	N/A	$0.78
TOTAL	**$0.00**	**$2.30**
Municipal 30 Day Visible Supply ($ Bln)	**$3.21**	**$7.72**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.13**	**$10.82**
Muni Placement Ratio (New Issues)	**n/a**	**95.9%**
Bond Buyer 20 Municipal G.O. Index	**4.73%**	**4.74%**

Select Economic Releases

Date	Event	Period	Survey	Prior
12/20	GDP Annualized	3Q T	3.60%	3.60%
12/20	Core PCE	3Q T	1.50%	1.50%
12/23	Personal Income	Nov	0.50%	-0.10%
12/23	Personal Spending	Nov	0.50%	0.30%
12/23	Univ. of Michigan Confidence	Dec F	83	82.50
12/24	MBA Mortgage Applications	20-Dec	--	-5.50%
12/24	Durable Goods Order	Nov	2.00%	-2.00%
12/24	House Price Index	Oct	0.50%	0.30%
12/24	New Home Sales	Nov	440K	444K
12/24	Richmond Fed Manufac. Index	Dec	10	13
12/26	Initial Jobless Claims	21-Dec	349K	379K







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.