Weekly Trading Desk Update

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Trading Desk Commentary

Rewind to December where US data built positive momentum heading into year-end, empowering the Fed to pull the 'taper trigger.' Since then, the mood has soured a bit. Participants are now faced with negative macro developments that are giving them pause. This week's continuing claims and housing data looked average-at-best and continues a two-week trend of unimpressive new U.S. numbers. On Thursday, Chinese manufacturing data widely missed its mark renewing concerns that one of the world's largest economies may be contracting. The bid for haven assets strengthened following the report, only to find further follow-through today as some emerging market economies showed signs of significant slowing and expressed anxiety over the continuation of Fed tapering. On the geopolitical front, tensions between China and Japan ratcheted higher as comments from both sides acknowledged a growing uneasiness between the two nations. While conflict between the two seems unlikely, Japan's and China's refusal to open a line of dialogue between one another remains a concern. The big question out of all of these developments: will the Fed stay on course with the next round of tapering next week? As of this moment, we believe the Fed will continue to reduce its asset purchasing program. Even though the US economic outlook is less rosy than six weeks ago, the Fed will likely focus on the trends over the past 6-12 months. By most measures, the economy is on better footing to start 2014 than it was this time last year. In fact, all of these factors that are now spurring the demand for safety may provide the Fed with some cushion to trim their buying by another $10-$15bln without unleashing an overly negative reaction in bond prices. A few more big negative days in equities early next week ahead of the meeting could give the Fed cold feet, but for that we will need to wait and see.

Weekly tax-exempt supply totals are still in the 'very manageable' range, especially this week which was consolidated due to the Martin Luther King, Jr. holiday shuttering markets on Monday. Partner that up with the strong bid in US Treasuries and Muni issuance starts to look downright puny. Next week, we are expecting somewhere between $4-5bln from issuers (another light week) while The Bond Buyer 30-day visible supply now rests below $7bln. One would expect as we move further into 2014 for this number to grow; however, the opposite is currently holding true. The strong interest in tax-exempt paper, falling yields and reversal in Muni mutual fund outflows could help push some issuers off of the sidelines but there would be at least a slight lag between cause and effect. So, for now, we find ourselves in a very low supply environment. Speaking of fund flows, Lipper reported more (albeit small) weekly inflows into the Muni bond fund universe for a second straight week. The same factors behind the support remain relevant: January reinvestment, tax concerns, firmer bond environment than expected and a weakened global economic outlook than in recent periods. In the limited supply in next week's market, there are still a few opportunities that we will be evaluating. The scheduled deals are chopped up between dozens of smaller loans, all below $400mln. We remain very selective in picking our spots to invest. Yield spreads have tightened and Muni yields are at their lowest levels since late-October/early November. We continue to find success in smaller pieces from the secondary, uncovering value where we can. Next week should be no different.

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		Overweight Taxables to Munis

Market Overview

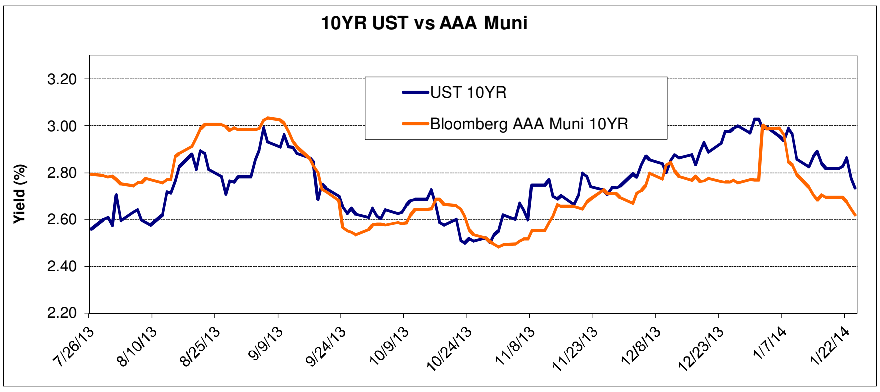
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	-0.04	0.34	88%
5 Year	1.06	-0.07	1.13	68%
10 Year	2.47	-0.12	2.59	90%
30 Year	3.78	-0.12	3.90	104%
UST Rates				
2 Year	0.34	-0.03	0.37	
5 Year	1.56	-0.06	1.62	
10 Year	2.73	-0.08	2.81	
30 Year	3.65	-0.09	3.74	

	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$2.72	$2.29
Competitive	$1.86	$1.61
TOTAL	**$4.58**	**$3.90**
Municipal 30 Day Visible Supply ($ Bln)	**$6.59**	**$8.88**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.16**	**$13.22**
Muni Placement Ratio (New Issues)	**n/a**	**95.9%**
Bond Buyer 20 Municipal G.O. Index	**4.50%**	**4.55%**

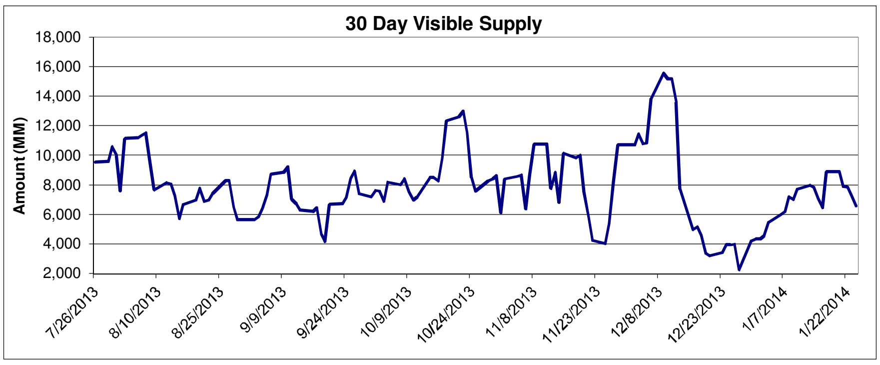
Select Economic Releases

Date	Event	Period	Survey	Prior
1/27	New Home Sales	Dec	455K	464K
1/28	Durable Goods Orders	Dec	1.80%	3.50%
1/28	Consumer Confidence Index	Jan	78.00	78.10
1/29	MBA Mortgage Applications	24-Jan	--	4.70%
1/29	FOMC Rate Decision	29-Jan	0.25%	0.25%
1/30	Initial Jobless Claims	25-Jan	330K	326K
1/30	GDP Annualized QoQ	4Q A	3.20%	4.10%
1/31	Personal Spending	Dec	0.20%	0.50%
1/31	Personal Income	Dec	0.20%	0.20%
1/31	Univ. of Michigan Confidence	Jan F	81.00	80.40

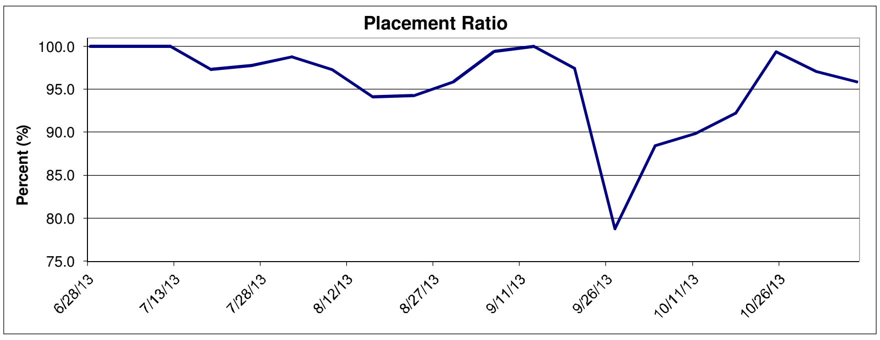
10YR UST vs AAA Muni



30 Day Visible Supply



Placement Ratio



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.