Weekly Trading Desk Update

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Trading Desk Commentary

Ben Bernanke's last week as the leader of the US Federal Reserve provided him with a suitably volatile walk to his exit. On Wednesday, the Fed revealed its widely expected decision to reduce its asset purchases by another $10bln to $65bln (split evenly between future MBS and US Treasury purchases). While a less accommodative Fed would seemingly pressure rates upward, the stock markets negative reaction to the Fed's exit is offsetting any weakness in bonds. On top of the Fed announcement, equities extended their descent on emerging market fears and China's signs of slowdown, further fueling the demand in haven assets. In the eight years at the helm, Bernanke faced the second largest financial crisis in US history, though its scope given our increasingly globalized economic system was unparalleled. Bernanke will likely be remembered favorably in his shepherding the US away from catastrophe by unleashing stimulus the likes of which this country had never seen. His efforts in making central bank operations and decisions more transparent were noble though it is arguable that the increased statements and language simply provided another tool for the Fed to fine tune its objectives. Bernanke's tenure also raises questions about the efficacy of central bank policy. More than five years removed from the onset of the crisis, the economic recovery remains stubborn despite the Fed opening up the accommodation floodgates. However, the housing and labor markets have undoubtedly come a long way. Janet Yellen will face her own set of problems as Fed Chairman beginning Monday. In particular, how to reduce the Fed's role in supporting the markets without derailing the progress we have seen over the past three years. If the past Fed meeting is any indication, the Fed appears intensely focused on its dual mandate: maximum employment and price stability. Though the emerging market issues are concerning to investors, the Fed suggested it will not let these flare-ups in the periphery effect the course of tapering as long as jobs and inflation data permit further stimulus reduction.

The Muni market lagged the stellar performance in US Treasuries this week. Muni-to-US Treasury ratios had become unreasonable, especially in the shorter regions of the yield curve. The US Treasury outperformance will provide front end ratios a little breathing though they are still tight on a historical basis. From an anecdotal standpoint, our experience depicted very little weakness in tax-exempts. The new deals in which we participated were all oversubscribed and, for the most part, saw their prices increased in their respective order periods. The appetite for new supply remains fervent. The turnaround in Muni fund flows continued to support the sector this week with Lipper reporting a second consecutive week of inflows (+$334mln). Next week, we expect $4.5bln in new issuance while The Bond Buyer 30-day visible supply is still hovering around $6bln. Neither of these numbers are the least bit intimidating, especially in light of the rotation we are seeing away from riskier assets. $1bln of next week's total will be concentrated in an (A3/A-) State of Illinois general obligation deal. The state's fiscal issues have been well-documented here and elsewhere but from a timing perspective, the state is bringing the deal at a very opportune moment for issuers. We expect buyers to swarm the deal upon its release and use it as an opportunity to add significant yield to portfolios relative to the AAA benchmark scale. MMD's AAA yields are at 7-month lows in maturities longer than 17 years while ratios still look enticing in that portion of the curve. For any Muni issuers trying to decide when to bring a new deal to market, now is one of the best opportunities in recent memory.

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**

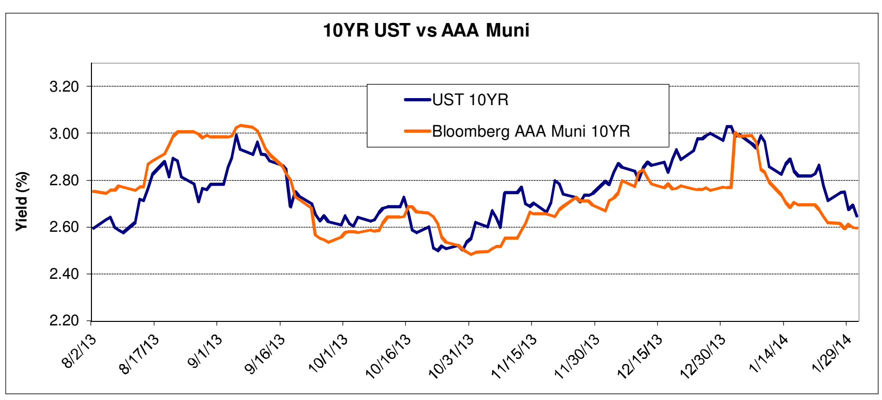
Market Overview

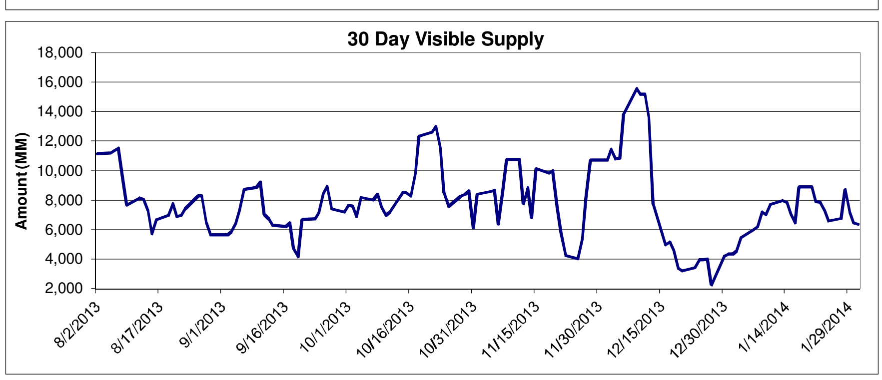
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	91%
5 Year	1.10	0.04	1.06	74%
10 Year	2.53	0.06	2.47	95%
30 Year	3.85	0.07	3.78	107%
UST Rates				
2 Year	0.33	-0.01	0.34	
5 Year	1.49	-0.07	1.56	
10 Year	2.65	-0.08	2.73	
30 Year	3.60	-0.05	3.65	

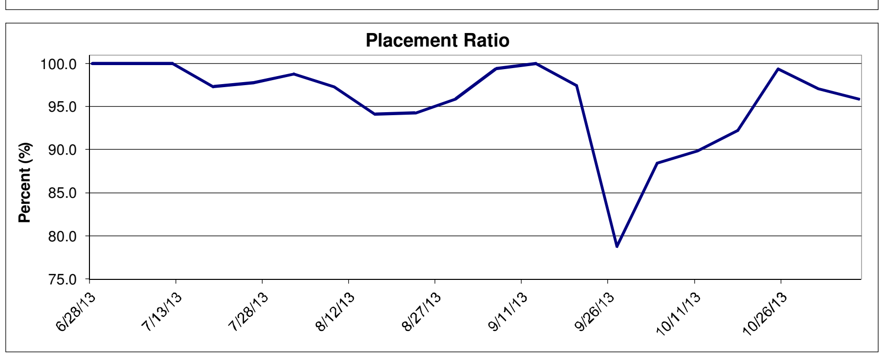
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$3.37	$2.72
Competitive	$0.77	$1.86
TOTAL	**$4.14**	**$4.58**
Municipal 30 Day Visible Supply ($ Bln)	**$6.39**	**$6.59**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.46**	**$13.16**
Muni Placement Ratio (New Issues)	**n/a**	**95.9%**
Bond Buyer 20 Municipal G.O. Index	**4.48%**	**4.50%**

Select Economic Releases

Date	Event	Period	Survey	Prior
2/3	ISM Manufacturing	Jan	56.00	57.00
2/3	Construction Spending MoM	Dec	0.00%	1.00%
2/4	Factory Orders	Dec	-1.80%	1.80%
2/5	MBA Mortgage Applications	31-Jan	--	-0.20%
2/5	ADP Employment Change	Jan	190K	238K
2/6	Initial Jobless Claims	1-Feb	335K	348K
2/6	Trade Balance	Dec	-$36.0B	-$34.3B
2/7	Change in Nonfarm Payrolls	Jan	180K	74K
2/7	Unemployment Rate	Jan	6.70%	6.70%







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.