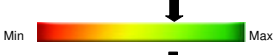



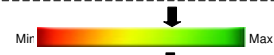

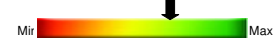

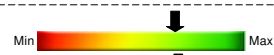




## Trading Desk Commentary

In recent weeks, traders' focus has shifted away from central bank policy and back to a more traditional emphasis on the underlying fundamentals. We dealt with a long period of a bad-news-is-good-news mentality. In the minds of traders, the economy's failings served to more firmly cement the Fed in stimulus mode and continue to inflate asset prices. In the time since tapering began in December, market fluctuations have remained extremely data dependent. However, reactions have been in-line with actual economic activity and traders are not basing their positions on whether or not the Fed will reduce, increase or hold stimulus steady. This suggests the market feels confident that the Fed is on auto-pilot for ending its asset purchasing by year-end. Today, the January Nonfarm Payroll release came in well under expectations (+113k vs. +180k expected). Many were also looking for a significant upward revision in the previous month's data as well, given that harsh weather likely affected the December print. That did not happen either. But the reaction was not intuitive, especially for a second consecutive disappointing Nonfarm Payroll number. While US Treasuries did gain ground after a weak start to the day, they retraced only a small portion of what they gave up since Tuesday morning. The more surprising response came from equities, which traded sharply higher even after futures took a nosedive in the minutes after the announcement. Traders are chalking up the miss in NFP to bad weather and are giving the release the benefit of the doubt (again). We don't believe that today's data was enough to revert traders to their old mindsets or cause the Fed to rethink their exit strategy. Labor force participation moved up today (to 63.0% from 62.8%) while the Unemployment Rate ticked down to 6.6% (from 6.7%). These provided a bit of a counterpoint to the Nonfarm release and helped soften the blow.

Municipals enjoyed a fairly steady week, thereby outperforming their taxable counterparts. New supply remains significantly below historical norms, boosting interest in those deals that do make their way to the marketplace. Less than \$3bln is expected next week and less than \$6bln in the next 30 days, according to The Bond Buyer. Those are very light totals and suggest that any weakness in tax-exempts will not be as a result of demand not meeting supply. Overall, Muni activity has remained light, though spreads remain historically compressed and bonds are trading at relatively rich levels. Munis have reaped the benefit of a broad flight to quality since year-end. In January, the Barclay's Municipal Bond Index was up 1.95% and through yesterday was up an additional 0.13% to start the month. That's a rock-solid start to the year. Whether it continues will largely depend on upcoming data and how participants' risk appetites evolve. If jobs data does not improve and weather can no longer be blamed for its sluggishness, equities could be in for a rough ride in the upcoming months. For that, we will have to wait and see.

## 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			Overweight Taxables to Munis

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.01	0.30	103%
5 Year	1.11	0.01	1.10	76%
10 Year	2.52	-0.01	2.53	94%
30 Year	3.84	-0.01	3.85	105%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.30	-0.03	0.33
5 Year	1.47	-0.02	1.49
10 Year	2.68	0.03	2.65
30 Year	3.67	0.07	3.60

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$1.40	\$3.37
Competitive	\$0.98	\$0.77
<b>TOTAL</b>	<b>\$2.38</b>	<b>\$4.14</b>

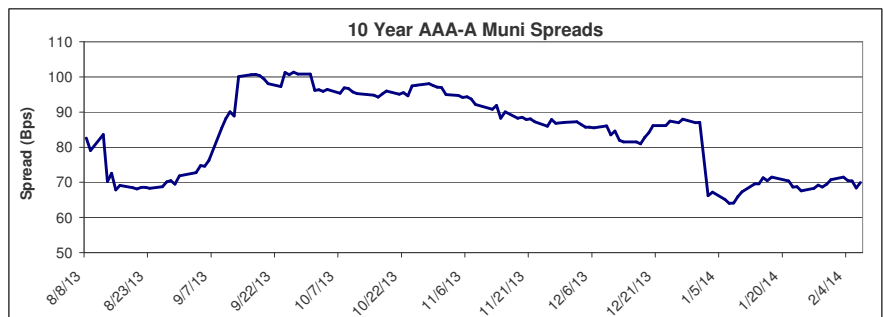
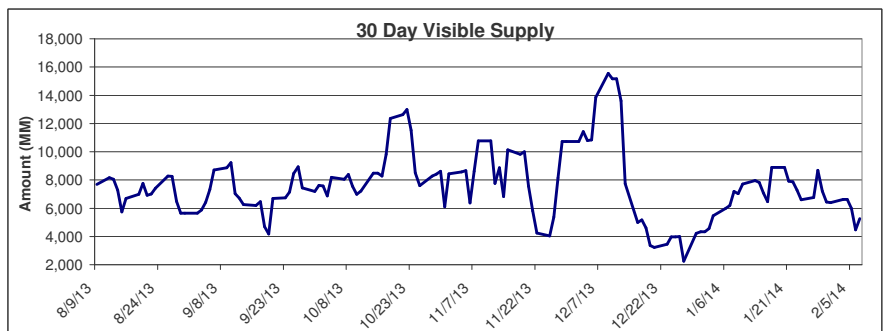
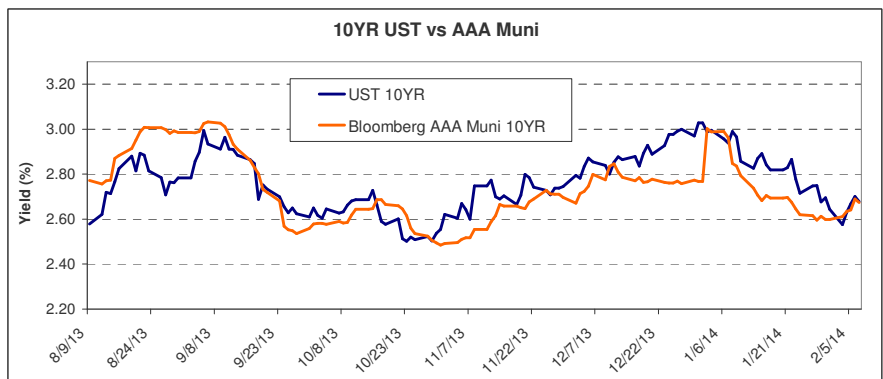
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$5.25</b>	<b>\$6.39</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.22</b>	<b>\$13.46</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.46%</b>	<b>4.48%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
2/12	MBA Mortgage Applications	7-Feb	--	0.40%
2/13	Initial Jobless Claims	8-Feb	330K	331K
2/13	Retail Sales Advance MoM	Jan	0.00%	0.20%
2/13	Continuing Claims	1-Feb	2968K	2964K
2/14	Import Price Index MoM	Jan	-0.10%	0.00%
2/14	Industrial Production MoM	Jan	0.20%	0.30%
2/14	Capacity Utilization	Jan	79.30%	79.20%
2/14	Univ. of Michigan Confidence	Feb P	80.50	81.20



**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.

**AAA-A Muni Spreads** - The difference in yield, as expressed in basis points (.01%), between the Bloomberg BVAL AAA 10 Year Benchmark Muni Index and the BVAL A Revenue 10 Year Muni Index.

**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 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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