












Trading Desk Commentary

The latest round of economic releases served up a new helping of mixed results. Though some housing and growth numbers surprised to the upside relative to expectations, any good sentiment was soured by disappointing confidence and jobs releases. US Treasuries rallied on the week and saw their yields touch 3-week lows before a small turnaround today. This came in response to the second GDP estimate for Q4 2013 that came in close to survey and showed moderate growth in the quarter (+2.4%). The ongoing upheaval in Ukraine is far from over and also contributed to the flight to haven assets in recent trading sessions. Looking back over the month of February, equities marched skyward essentially unabated. The Dow improved by almost 1,000 points and retraced roughly 80% of the losses it accrued in January. The enthusiastic month in stocks is somewhat surprising given the mediocre (at best) economic data released over the period. In our first Trading Desk Update in February, we noted that trading activity had (mercifully) shifted its focus away from Fed policy and more toward underlying fundamentals. Equities used the month of January to purge some of the overvaluation that had built up in late 2013. Good news was good news again and trading was less distorted by traders seeing economic data through the 'Fed prism' where disappointing data meant a more active, supportive Fed. Though strong earnings and a quieter Emerging Market front boosted equities, it was hard not to believe that some part of the risk enthusiasm came as a result of softening US data and the likelihood that the Federal Reserve will need to remain ultra-accommodative. Yellen said as much in her testimony before the Senate Banking Committee yesterday. She acknowledged the recent signs of weakness in the economy and said that the Fed would potentially need to re-evaluate its position should the data not improve in the coming months. Many economists believe that the data in December and January was tainted to some degree by the harsh winter weather in the US. However, if we reach the warmer months and data does not significantly rebound (especially in the labor sector), we would expect concerns to increase regarding the economy's health. We believe the Fed remains intent on tapering through year-end and completing their asset purchasing program over the next 10 months (barring an unforeseen disaster, economic or otherwise).

In Munis, the grind continues. Supply remains participants' biggest foe. Far more money is chasing bonds than the amount available. This supply-demand imbalance is clearly supportive of Muni prices but requires an enormous effort to simply find bonds that align with trader inquiries. An open dialogue with the street, persistence and patience remain fundamental tools in today's environment. We have become extremely mindful of credit spreads in recent weeks. AA and A-rated tax-exempts are trading closer to AAA levels today than at any other time in recent memory. Their yields have been compressed by the prolonged lack of supply as well as a return to some of the lowest Muni yields in 8 months. Not only are investors scrambling for bonds, but they are also desperately seeking bonds that are offering incremental yield versus AAA benchmarks. The concentrated demand is pushing spreads in the higher-yielding sectors towards all-time-tight levels. Furthermore, Lipper reported yet another week of inflows into Muni bond funds – again, providing support for evaluations but making for a very crowded party. We did have our share of successes this week in the Muni primary and secondary markets. In particular, the (Aa2/AA) Massachusetts State single-family housing loan offered some value in the 10-year range and provided our portfolio managers with an opportunity to extend duration where appropriate. The story for Muni traders remains the same - stay proactive in your search for bonds and be ready to pounce. Any paper around longer than 15 minutes is probably overpriced.

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	0.26	-0.05	0.31	81%
5 Year	1.00	-0.08	1.08	67%
10 Year	2.40	-0.10	2.50	91%
30 Year	3.72	-0.12	3.84	104%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.32	0.01	0.31
5 Year	1.50	-0.03	1.53
10 Year	2.65	-0.08	2.73
30 Year	3.58	-0.11	3.69

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.67	\$1.34
Competitive	\$1.29	\$1.01
TOTAL	\$4.96	\$2.35

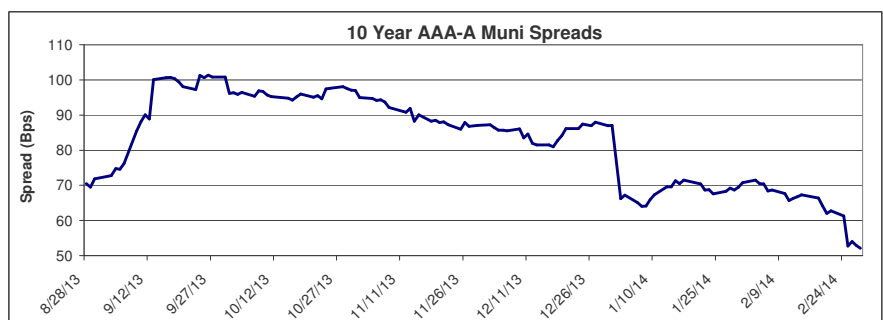
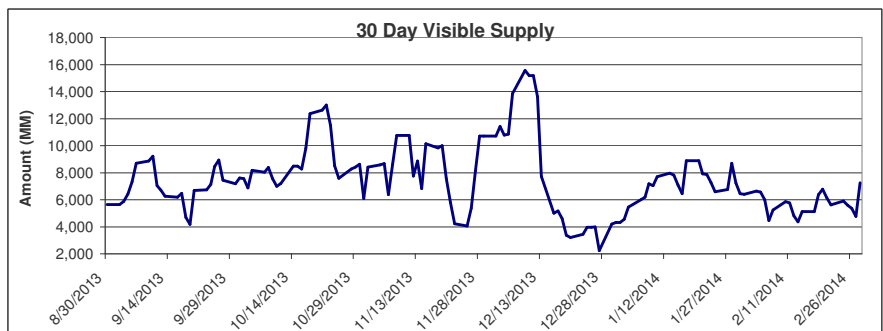
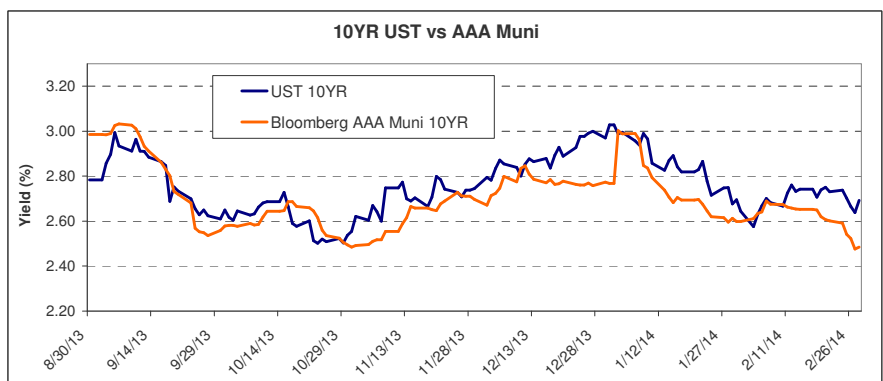
Municipal 30 Day Visible Supply (\$ Bln)	\$7.26	\$5.63
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Bloomberg Muni PICK Offerings (\$ Bln)	\$12.34	\$12.79
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Bond Buyer 20 Municipal G.O. Index	4.38%	4.44%
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Select Economic Releases

Date	Event	Period	Survey	Prior
3/3	Personal Spending	Jan	0.10%	0.40%
3/3	Personal Income	Jan	0.20%	0.00%
3/3	ISM Manufacturing	Feb	52	51.3
3/5	MBA Mortgage Applications	28-Feb	--	-8.50%
3/5	ADP Employment Change	Feb	160K	175K
3/6	Initial Jobless Claims	1-Mar	338K	348K
3/6	Factory Orders	Jan	-0.50%	-1.50%
3/7	Change in Nonfarm Payrolls	Feb	150K	113K
3/7	Unemployment Rate	Feb	6.60%	6.60%



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.

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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