Weekly Trading Desk Update

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Trading Desk Commentary

At the conclusion of its meeting on Wednesday, the FOMC took center stage. These routine get-togethers have become increasingly more about what is said after the rate decision announcement than the rate decision itself. Any change to the Fed Funds rate will have to wait. Exactly how long is up for debate, but anytime in 2014 is likely off the table. In the meantime, traders and investors will place more value on Chair Yellen's words as they try to calibrate their forecasts. 'Don't fight the Fed' is an adage as old as time and the best way to gauge Fed intentions has been in the post-rate announcement press conference. Still, it is no cut-and-dry task. Yellen's mastery of 'Fed speak' is growing quickly. An off-the-cuff (and honest) comment about her own rate expectations sent the market into a tizzy at the March meeting and provided bonds with one of their worst days of the year. Her word selection Wednesday proved Yellen is a quick study. She wanted to make it exceedingly clear that accommodation was still the name of the Fed's game. As for increasing target rates, well, no need to worry about that anytime soon. Though the Fed blames transitory factors for the US's slow growth, they did take the opportunity Wednesday to downgrade their long-term growth forecasts. So, the Fed expects a pick-up in growth as the dragging factors move further in our rear-view – but projects growth to increase slower over the next two or three years. That's a tough forecast to act on, and trading in US Treasuries depicts a market left scratching its head. Yields have only moved a hair higher versus where they were at the conclusion of Yellen's remarks. It's a lot easier to avoid fighting the Fed if you know what the Fed is actually thinking. This is where the art comes in. Investors have to sift through the Fed speak and dig deep into the economic signals, then draw their own conclusion. We do it everyday. As of today, our stance is this: the Fed is noticing some encouraging trends in underlying data. The economy is improving, but at a snail's pace. The Fed, along with everyone else, will have to see if the improving conditions are sustainable to the point that organic growth takes hold. Simultaneously, there are serious threats to a rosy outlook – Iraq being the newest member of that club. Next Wednesday we will get our last look at Q1 GDP, which is expected to fall further into negative territory from its second iteration (-1.8% expected vs -1.0% prior). It's hard to justify higher rates with such an ugly measure of growth. If the pendulum swings equally hard the other way in subsequent quarters and plays 'catch up,' that is a scenario where we could envision a different sentiment.

Munis lived in their own little bubble this week. As Treasuries bounced around on some mixed data and then the Fed's comments, Municipals held steady. Participants faced just $6.4bln of new issuance this week, after easily devouring more than $8bln the week prior. The Bond Buyer's 30-day visible supply is down from its $13bln+ highs, now hovering around $10bln or so. Seeing the calendar shrink usually helps buyers off the sidelines as supply pressures ease. Lipper reported flows into Muni bond funds and ETFs for a fifth straight week. Buyers are still hungry for Muni exposure. The tax-exempt space feels very healthy right now. Demand is strong, supply is not getting away from us and the credit environment has been quiet now for a few months. The Puerto Rico crisis is destined to rear its head again in the next year, but for now they have cash on hand to fund operations (sourced via more debt, of course) and so everyone is happy. Almost $9bln of the $10bln on the visible calendar is coming next week. New debt is concentrated in a few mega-deals, with almost half of next week's supply in just four loans. Yet again, we expect all to go very smoothly. It's going to take more than this to make any type of dent in the appetite for Munis.

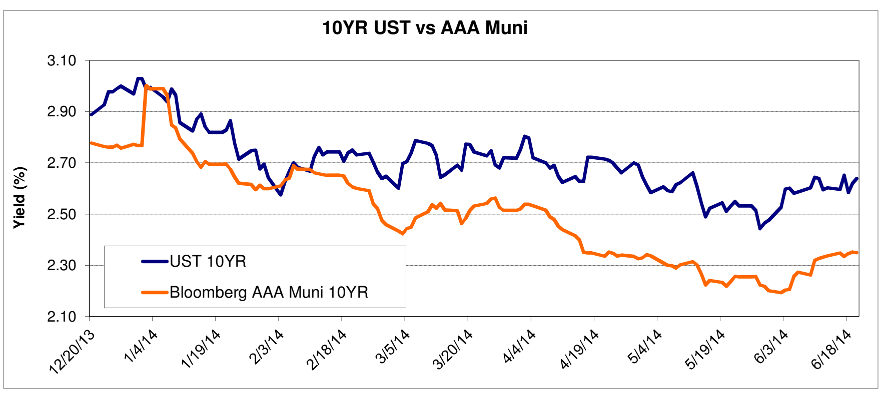
Caprin Strategy Summary

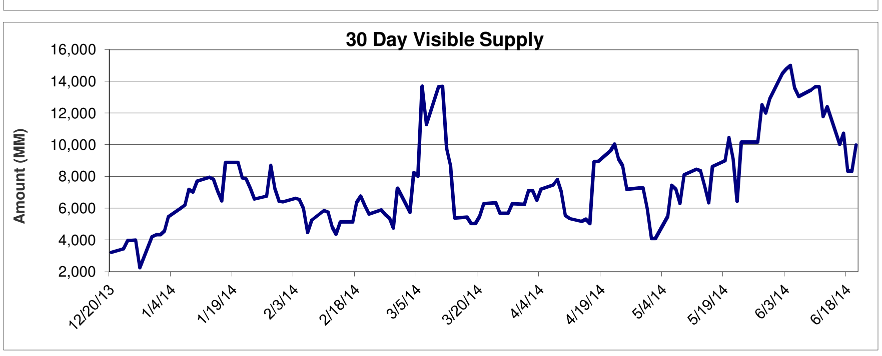
Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min – Max	0 YRS – 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min – Max	0 YRS – 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min – Max	0 YRS – 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s 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 Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	65%
5 Year	1.28	-0.02	1.30	76%
10 Year	2.33	0.00	2.33	89%
30 Year	3.38	0.01	3.37	99%
UST Rates				
2 Year	0.46	0.01	0.45	
5 Year	1.69	0.00	1.69	
10 Year	2.61	0.01	2.60	
30 Year	3.43	0.02	3.41	

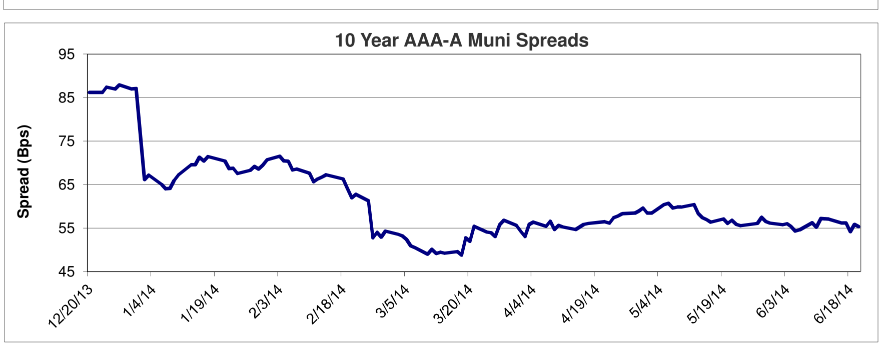
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$5.60	$3.88
Competitive	$3.50	$2.28
TOTAL	**$9.10**	**$6.16**
Municipal 30 Day Visible Supply ($ Bln)	**$9.99**	**$12.40**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.17**	**$14.51**
Bond Buyer 20 Municipal G.O. Index	**4.36%**	**4.37%**





Select Economic Releases

Date	Event	Period	Survey	Prior
6/23	Markit US Manufacturing PMI	Jun P	56.00	56.40
6/23	Existing Home Sales	May	4.74M	4.65M
6/24	Consumer Confidence Index	Jun	83.50	83.00
6/24	New Home Sales	May	439K	433K
6/25	MBA Mortgage Applications	20-Jun	--	-9.20%
6/25	GDP Annualized QoQ	1Q T	-1.80%	-1.00%
6/25	Durable Goods Orders	May	0.00%	0.80%
6/26	Initial Jobless Claims	21-Jun	310K	312K
6/26	Personal Income	May	0.40%	0.30%
6/26	Personal Spending	May	0.40%	-0.10%
6/27	Univ. of Michigan Confidence	Jun F	81.90	81.20



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.

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.