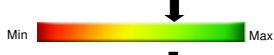



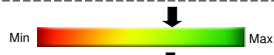

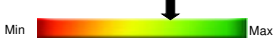

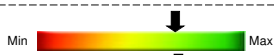




## Trading Desk Commentary

A graph of this week's CBOE Volatility Index (VIX) illustrates the dramatic increase in uncertainty permeating US markets. Such a spike suggests things are likely changing in investors' minds - that we are entering a period of potential transition. The VIX is trading roughly 50% higher today than it was at the end of June. The most apparent agent of change is the Federal Reserve, not that the central bank did anything particularly out of character with Wednesday's rate decision. Rates: unchanged; Taper: extended another \$10bln. But the reality is that we are quickly approaching the end of the Fed's asset purchasing era. We have lived here since November 2008 when the Fed began building its balance sheet up to today's unprecedented level. Barring a seismic shift in economic activity, the Fed will end QE at its October 29th meeting. What's more uncertain is the timing of the Fed's first rate hike. They preserved their language that rates would remain near-zero for well beyond the end of tapering, but this time it wasn't without a fight. Charles Plosser, President of the Federal Reserve Bank of Philadelphia, dissented to the language claiming Fed officials need to leave the option open to raise rates sooner rather than later. It is possible that Plosser's dissent will mark the beginning of intensified debates within the Fed over the appropriate time to start hiking rates. Since the rate decision, stocks have suffered a notable decline (the Dow fell more than 500 points this week). It would be too pat to blame the correction on the Fed alone. Argentina's default and concerns over the health of the Portuguese banking system weighed on investor's minds. And that's not even digging into the Gaza and Iraqi situations. Also, the bright start to the corporate earnings season lost some of its luster this week with companies like Exxon Mobil and Kraft missing their marks. A lot of negative factors have come to a head and given risk buyers the jitters. Investors looked at the Dow near 17,000 at a time characterized by great geopolitical and economic uncertainty, felt very vulnerable, and began taking profits before traveling too far into the unknown. It's important to remember that the VIX is a measure of volatility, not market momentum. It's one measure of uncertainty and fear - and one that we see staying elevated.

On the flip side of the coin, the mild panic in US equities reignited a powerful bid for haven assets. After a sharp sell-off Wednesday following the big GDP print (4.0% vs. 3.0% expected) and Plosser's dissent, the risk-off on Thursday and Friday erased those losses. The 10-Year US Treasury yield fell back below 2.50% while global risk markets sunk. Today's disappointing payrolls numbers highlight Yellen's labor market concerns and build a case for prolonged accommodation. Wage growth, the participation rate, and underemployment all depict an unfriendly job environment. By these measures, low rates are justifiable - and therefore so is this bond rally. Municipals marched to their own beat. While the US Treasury market caught fire Thursday and Friday, Munis actually weakened. Muni-to-Treasury ratios (ie relative value) had come down significantly so Munis' lag served more to normalize these ratios than anything. New issuance is still trading extremely well. Lipper reported another week of sizable inflows for the Muni space. Next week we are only expecting \$5bln in new supply and less than \$8bln over the next 30 days. We view this week's underperformance as US Treasuries playing a little catch up to put ratios in a more normal context. Next week, we are facing a varied Muni calendar. A \$575mln (Aa2/AA) Illinois Finance Authority loan for the University of Chicago will lead the way. Given the strong US Treasury backdrop and sluggish Muni response, we expect Muni demand to feel very energized come next week.

## Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni			Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable			Prefer Corporates and Taxable Munis
Intermediate Muni			Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable			Prefer Corporates and Taxable Munis
Tactical Muni ETF			Overweight to CA
Core Plus ETF			Slight Overweight to Corporates
Tactical Opportunity ETF			Slight Overweight Munis to Taxables

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.32	0.01	0.31	68%
5 Year	1.24	0.03	1.21	75%
10 Year	2.27	0.08	2.19	91%
30 Year	3.30	0.06	3.24	101%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.47	-0.01	0.48
5 Year	1.66	-0.01	1.67
10 Year	2.49	0.03	2.46
30 Year	3.28	0.05	3.23

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$3.83	\$3.67
Competitive	\$1.25	\$0.49
<b>TOTAL</b>	<b>\$5.08</b>	<b>\$4.16</b>

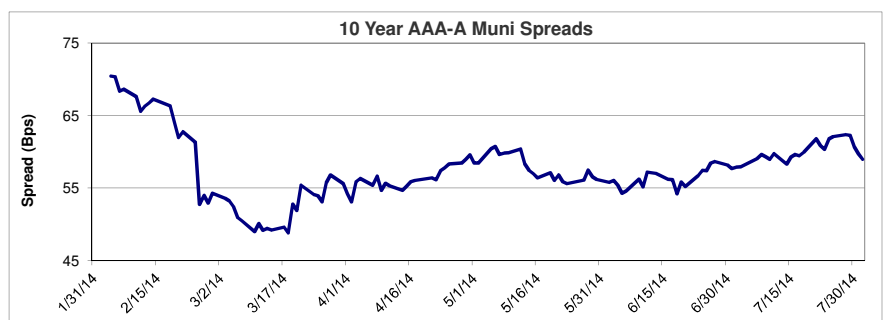
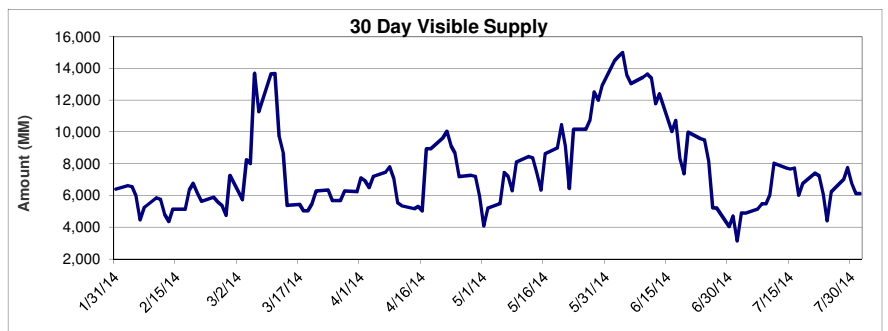
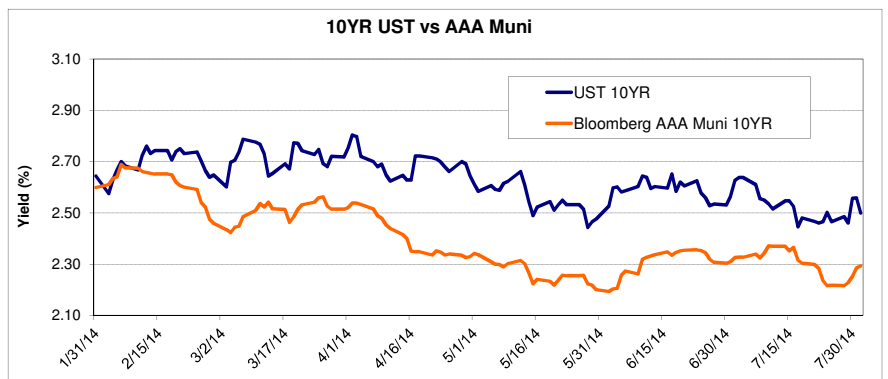
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$6.12</b>	<b>\$6.24</b>
---	---------------	---------------

<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$11.83</b>	<b>\$12.68</b>
---	----------------	----------------

<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.29%</b>	<b>4.29%</b>
---	--------------	--------------

## Select Economic Releases

Date	Event	Period	Survey	Prior
8/5	Markit US Services PMI	Jul F	60.50	61.00
8/5	Factory Orders	Jun	0.60%	-0.50%
8/5	ISM Non-Manf. Composite	Jul	56.50	56.00
8/6	MBA Mortgage Applications	1-Aug	--	-2.20%
8/6	Trade Balance	Jun	-\$45.0B	-\$44.4B
8/7	Initial Jobless Claims	2-Aug	305K	302K
8/8	Wholesale Inventories MoM	Jun	0.70%	0.50%



**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.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.