Weekly Trading Desk Update

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Trading Desk Commentary

As the Federal Reserve's meeting next Wednesday quickly approaches, speculation is running rampant. Participants are already concerned over the taper sunset, which should conclude two meetings from now. The Fed's aggressive purchasing of US Treasuries and mortgage-backed securities has provided a shot of adrenaline in US markets since 2008. But that high is at risk of wearing off with the Fed's official exit from those markets and the intensified debates over raising US interest rates. Opinions vary widely over whether the US economy could withstand tighter monetary policy in its fragile state. There have been positive developments in domestic activity, to be sure – especially in the most recent GDP releases. But labor market activity continues to underwhelm, and housing data has slumped in recent weeks since the 10 Year US Treasury yield started its 25 basis point ascent. Trading in US debt this week showed a growing concern over misreading the Fed's intentions and its vague timeline. Hints of hawkishness have emerged with greater frequency, and Fed funds futures suggest that some are betting on an earlier rate hike than they were a few months ago. It appears that some traders are hedging that possibility. Any change to the Fed's forward guidance and/or intentions would send a shock through US markets. There is speculation that the Fed could remove its 'considerable time' guidance in regards to how long after the end of tapering it will keep rates low. A change of that nature in Fed language would likely result in a knee-jerk weakening in US Treasuries, and it seems some are trying to front-run that scenario. The fact that the geopolitical landscape felt fairly quiet this week also encouraged traders to reduce their US Treasuries exposure. However, there are several mitigating factors that would mute a sell-off sparked by upcoming Fed developments: 1) The end of QE is already bearish for stocks. Higher rates: even more so. A wide-based rotation from stocks into haven assets from the inflated equity space could help keep US Treasury weakening in check; 2) Sovereign interest rates in the Eurozone are still at ultra-low levels. The region's economies are struggling mightily and are falling years behind the US recovery. The US Treasury note auctions this week saw a record amount of buying from foreign investors who view the US as an attractive relative value opportunity. Until the EU can piece together some growth and avoid entering a deflationary slump, there will be a foreign bid for US Treasuries. This too would serve to somewhat cap rates; 3) The geopolitical wild card. President Obama announced a multi-phase strategy for eliminating the ISIS threat. Overall, the strategy is fairly reserved but still commits the US to more heavy involvement back in the Middle East. The Ukraine-Russia cease-fire signed in Minsk on September 5th has eased the tensions in the region for now. We have seen on multiple occasions that these agreements are unstable and will require close surveillance on our part. Next week, Scotland will vote on Scottish independence from the UK, a decision that, either way, will reverberate through global markets. A 'yes' vote for independence could call into question the UK's desire to remain in the EU. The list of geopolitical threats goes on and on and continue to provide a need for haven assets. For now, the UST 10 is still trading within its shorter term 2.40-2.65% channel, though it could test the top end as we approach next week's meeting. If the meeting turns out to be a game-changer, we stand ready to re-evaluate our neutral duration posture.

Nothing has affected Muni trading more than the US Treasury movement. This is why we continue to apply such heavy emphasis on the topic in these updates and our investment decisions. Supply and activity remains light, but The Bond Buyer 30-Day Visible Supply now sits at its highest point since June. This should not apply an excessive amount of pressure on Munis given how long we have been in a low supply environment and the ongoing demand for tax-exempt paper. Plus, the upcoming supply is spread out among dozens of deals in a variety of ways: geographically, quality-wise, and sector-wise. This should help with their distribution. Lipper reported $1.9bln flowed into Muni bond funds this week, a ringing endorsement for Muni appetite. New deals we were involved in this week all received price bumps and all garnered more orders than the number of bonds available. Taxable traders may be skittish around the upcoming Fed decision, but one person remains vehemently undeterred – the Muni buyer.

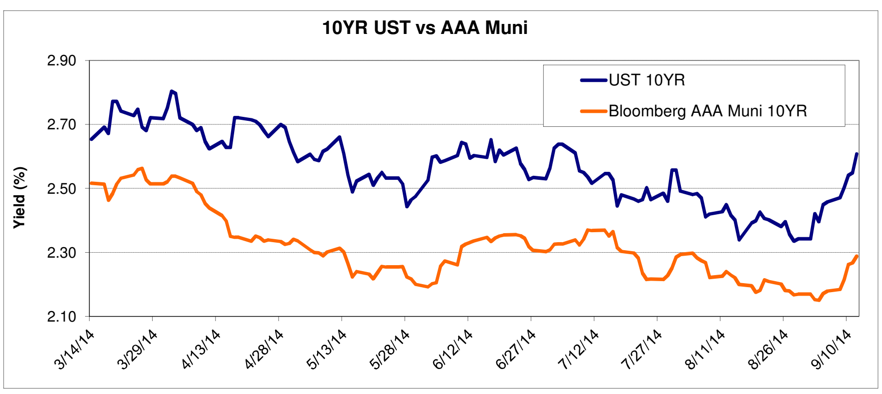
Caprin Strategy Summary

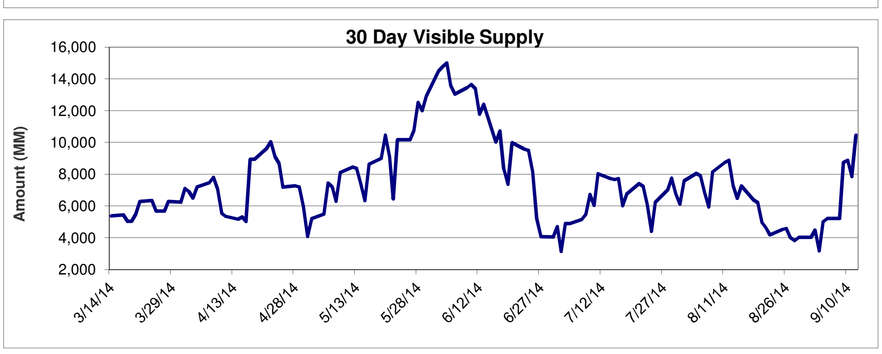
Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min – Max	0 YRS – 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min – Max	0 YRS – 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min – Max	0 YRS – 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Min – Max	0 YRS – 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min – Max		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	0.32	0.01	0.31	57%
5 Year	1.17	0.05	1.12	65%
10 Year	2.26	0.10	2.16	87%
30 Year	3.20	0.09	3.11	96%
UST Rates				
2 Year	0.56	0.06	0.50	
5 Year	1.81	0.12	1.69	
10 Year	2.60	0.15	2.45	
30 Year	3.34	0.11	3.23	

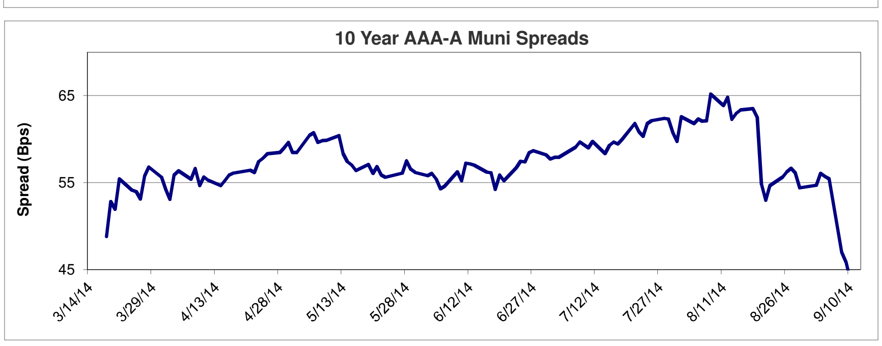
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$4.08	$2.10
Competitive	$1.56	$0.42
TOTAL	**$5.64**	**$2.52**
Municipal 30 Day Visible Supply ($ Bln)	**$10.44**	**$5.21**
Bloomberg Muni PICK Offerings ($ Bln)	**$12.69**	**$14.23**
Bond Buyer 20 Municipal G.O. Index	**4.14%**	**4.09%**





Select Economic Releases

Date	Event	Period	Survey	Prior
9/15	Empire Manufacturing	Sep	16.00	14.69
9/15	Industrial Production MoM	Aug	0.30%	0.40%
9/16	PPI Final Demand MoM	Aug	0.00%	0.10%
9/17	MBA Mortgage Applications	12-Sep	--	-7.20%
9/17	CPI MoM	Aug	0.00%	0.10%
9/17	FOMC Rate Decision	17-Sep	0.25%	0.25%
9/18	Initial Jobless Claims	13-Sep	305K	315K
9/18	Housing Starts	Aug	1035K	1093K
9/19	Leading Index	Aug	0.40%	0.90%



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.