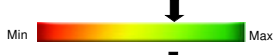



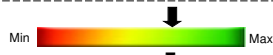

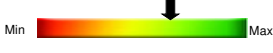


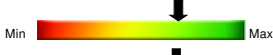



## Trading Desk Commentary

Today hosted one of the strongest US data points of 2014: Nonfarm payrolls grew by 321k, far above the 230k expectation. US Treasury yields moved higher immediately, though they trimmed their losses in the hour that followed. Speculation that such a strong jobs number could result in a more aggressive tightening attitude at the Fed pushed short yields higher in particular. After the jobs release, the 2-Year is now trading at 0.62%, and the 2-Year US Treasury hasn't yielded more than 0.60% since April 2011. It's difficult to quantify how much of the pop in this morning's release comes from seasonal hiring by holiday retailers and the like. If Nonfarm Payrolls can string together a few more +250k jobs numbers, it would signal that what we are seeing today is more than a transitory phenomenon. Regardless, a spike like this in the jobs numbers (accompanied by a meaningful upward revision to October's release) is encouraging. The yield curve continues to flatten on the prospect of a Fed rate hike, while inflation expectations are keeping the long-end in check. On top of that, long-end buyers are still coming in from overseas to lock-in the relatively attractive yields that US debt offers versus their own domestic debt. The fact that the US growth and recovery story is leading the pack is just icing on the cake. In the sessions leading up to today, the US Treasury market was reasonably stable. US data did not offer up any other big surprises. Yesterday, the European Central Bank revised their growth forecasts downward for 2015 and 2016 and generated firm trading in US debt but did not ignite much of a rally. The global picture remains bleak, but much of the malaise appears priced into the US Treasury market at the moment. Even as the US economy is trying to take the next step in its recovery, rates should continue to be weighed down by Europe and Asia's mighty struggles. This countervailing pressure makes it more difficult to forecast where rates will be even at the end of the year. We still expect sideways-type momentum in the 10-Year US Treasury. We remain below the significant 2.35% resistance level though a few more encouraging data points could have us testing it sooner rather than later. However, higher US rates would only encourage a new round of overseas buyers to step in which could mute or even erase upward yield momentum - we are seeing this activity happen with increasing regularity. We continue to invest on the long side of our neutral duration to position for a flattening yield curve while protecting against the uncertain developments, primarily from overseas.

The Muni market worked through its busiest week of the year. Issuers brought more than \$14bn in new supply to the primary over the past five days. That's a tall order for any week, especially when buyers are dealing with some of the lowest yields of the year. Would there be yield fatigue? As it turns out...not really. Most of the deals came and went without a hitch and many saw their prices increased in response to overwhelming demand. Buyers are still motivated to get cash to work before the holiday slowdown sets in. They also have dealt with some tough supply conditions for most of the year. There is still cash available looking for a home. Next week, Muni participants will deal with a full slate yet again. More than \$11bn in loans are expected, and The Bond Buyer 30-day visible supply is still north of \$12bn. The week will be lead by \$1.5bn (Aa1/AA+) Los Angeles Community College District general obligation bonds. After next week, we would expect supply to start winding down quickly. This recent burst of issuance came as a surprise to the market, and the fact that buyers digested the new issuance so smoothly is a testament to the demand that still exists. Even in an elevated supply environment next week, we are still confident in the market's ability to support more debt at these prices. A stable US Treasury market next week would also provide tax-exempts with a big boost.

## 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			Neutral Taxables to Munis

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.39	0.01	0.38	62%
5 Year	1.20	0.05	1.15	72%
10 Year	2.09	-0.06	2.15	91%
30 Year	3.00	-0.08	3.08	101%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.63	0.13	0.50
5 Year	1.67	0.07	1.60
10 Year	2.30	0.00	2.30
30 Year	2.96	-0.05	3.01

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$9.60	\$6.91
Competitive	\$1.70	\$1.81
<b>TOTAL</b>	<b>\$11.30</b>	<b>\$8.72</b>

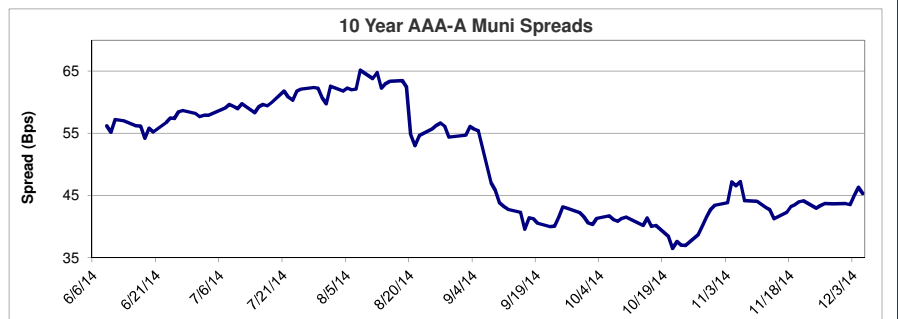
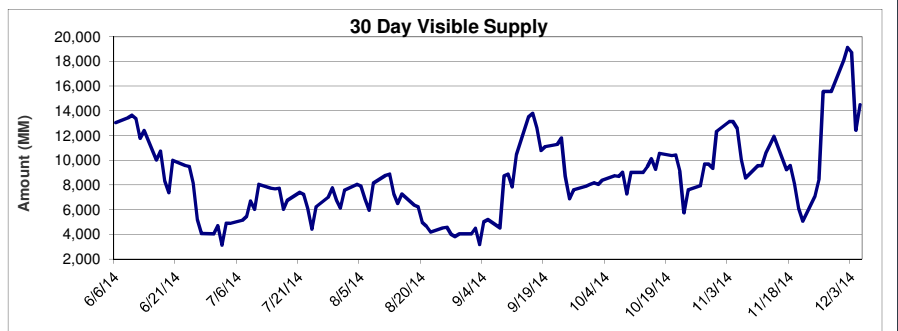
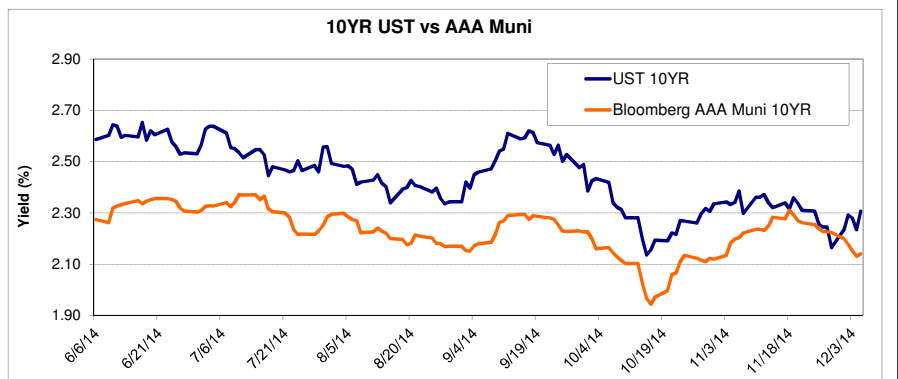
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$14.51</b>	<b>\$5.06</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.35</b>	<b>\$12.71</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.83%</b>	<b>3.93%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
12/9	Wholesale Inventories MoM	Oct	0.20%	0.30%
12/10	MBA Mortgage Applications	5-Dec	--	-7.30%
12/10	Monthly Budget Statement	Nov	-\$65.0B	-\$135.2B
12/11	Initial Jobless Claims	6-Dec	295K	297K
12/11	Retail Sales Advance MoM	Nov	0.40%	0.30%
12/11	Import Price Index MoM	Nov	-1.80%	-1.30%
12/12	PPI Final Demand MoM	Nov	-0.10%	0.20%
12/12	Univ. of Michigan Confidence	Dec P	89.70	88.80



**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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