

## Trading Desk Commentary

The past couple of weeks saw a lull in the positive economic releases that posted in the earlier months of the year. The equity rally maintained an upward bias but lost much of the force it had on display in March. The better-than-anticipated corporate earnings season provided moderate support for more risk-on activity, but Friday's jobs update rejuvenated the equity markets and pushed the 30-year US Treasury bond yield towards 3.00% in its weakest trading day since last fall. Friday's positive payroll report comes on the heels of the Fed emphasizing the importance of the employment picture in shaping its policy decisions, so the market likely viewed the upside surprise (and revision to prior) in Nonfarm Payrolls as a "double whammy." Not only was the economy showing further signs of gaining traction, but the payroll number could make continued Fed easing less likely, all else being equal. Granted, this report is not enough for the Fed to re-evaluate its current accommodative stance, but if stronger labor data starts to pile up as the year progresses, participants may start to price in the end to QE and the beginning of Fed tightening within a shorter time horizon. Over the shorter term, the bias for riskier assets appears to have legs as long as economic indicators continue to point for further recovery.

Munis surrendered some ground to close out the week in response to the marked sell-off of their taxable counterparts. However, the weakness in Muniland following the payroll data release was much less pronounced, likely for several reasons. For one, activity relative to the equity on, Treasury off trading felt very light – typical of a Friday. Second, the large Muni-to-Treasury ratios provided some cushion for Muni prices relative to US Treasury yields. These ratios have hovered well over 100% for most of the year so today's Treasury weakness had room to be absorbed by tax-exempts. Third, Muni supply has dwindled close to its lowest point since last year after hitting 2013 highs only a few weeks ago. We are expecting less than \$5bln in new supply next week and less than \$7bln over the next 30 days, according to Bond Buyer. These numbers feel downright scant in the wake of routine \$7-9bln weekly supply totals in April. Lastly, much of the activity in the Municipal market over the past week continued to feel fairly stable, with ongoing success in the primary market. This is all to say that, in general, Munis still feel well-supported. The main Muni stat that paints a different picture is Lipper's Muni bond fund flows, which posted a surprisingly large outflow this week (almost -\$400mln). It is likely that the easy liquidity provided by these funds had investors reaching into them to meet tax obligations and/or to quickly jump into the equity rally. However, the more traditional retail buyers of Muni paper, using the sector as part of their more static, total allocation appear to provide plenty of demand to work through new loans and dealer inventories. Next week should be no different. The limited supply totals will be spread out across dozens of smaller deals, with no single deal over \$300mln in size. Even if yields continue to rise in US Treasuries, Muni participants should be active enough to digest everything dealers will throw at them next week.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	132%
5 Year	0.73	-0.01	0.74	100%
10 Year	1.68	-0.01	1.69	97%
30 Year	2.82	-0.05	2.87	95%
UST Rates				
2 Year	0.22	0.00	0.22	
5 Year	0.73	0.05	0.68	
10 Year	1.74	0.07	1.67	
30 Year	2.96	0.10	2.86	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$2.64	\$4.66
Competitive	\$1.38	\$1.10
<b>TOTAL</b>	<b>\$4.02</b>	<b>\$5.76</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$6.74</b>	<b>\$7.65</b>
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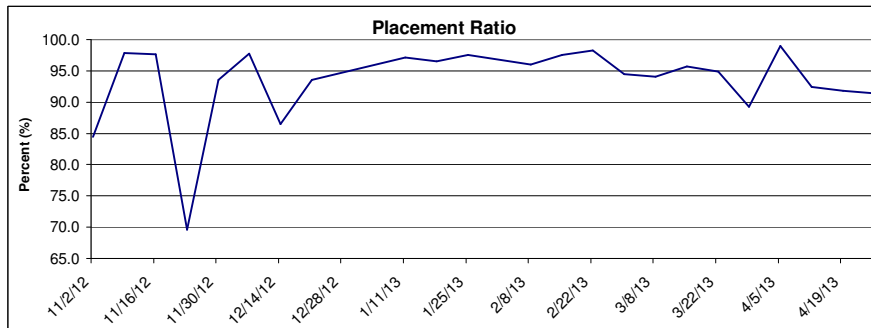
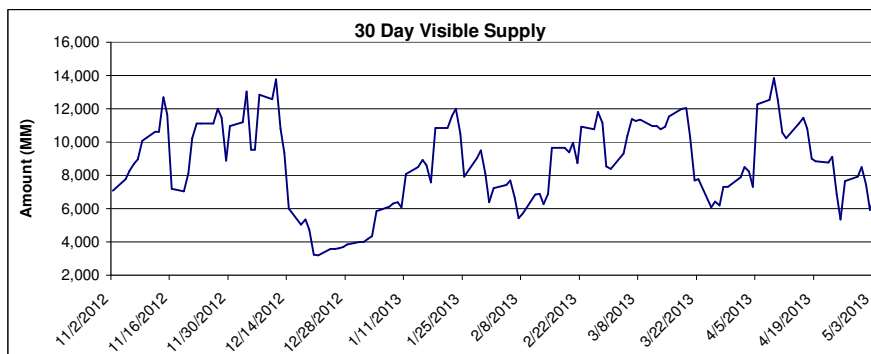
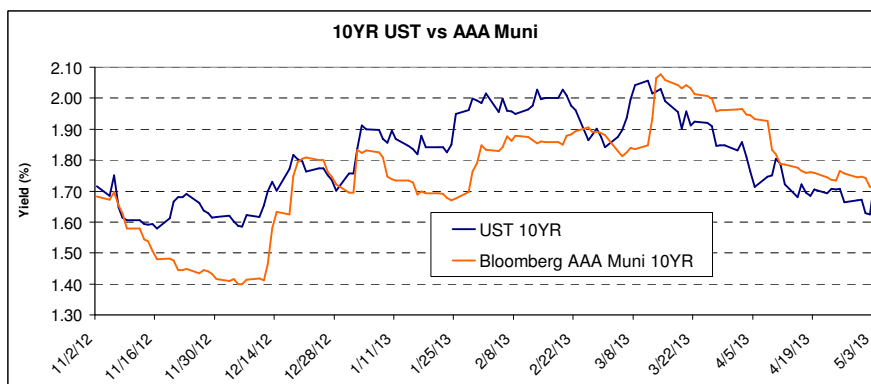
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$16.32</b>	<b>\$15.73</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>91.4%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.77%</b>	<b>3.90%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
5/7	Consumer Credit	Mar	\$16.0B	\$18.1B
5/8	MBA Mortgage Applications	3-May	--	1.8%
5/9	Initial Jobless Claims	4-May	334K	324K
5/9	Continuing Claims	27-Apr	3020K	3019K
5/9	Wholesale Inventories	Mar	0.4%	-0.3%



## Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	.85 YRS to 1.85 YRS	0 YRS to 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	1.30 YRS to 2.30 YRS	0 YRS to 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	4.00 YRS to 5.00 YRS	0 YRS to 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	3.50 YRS to 4.50 YRS	0 YRS to 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	2.50 YRS to 7.50 YRS		Slight Overweight to Cal. and HY Sector
Core Plus ETF	2.35 YRS to 7.10 YRS		Slight Overweight to Corporates and TIPS
Tactical Opportunity ETF	2.45 YRS to 7.30 YRS		Neutral Taxables to Munis, Yield Bias

**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.

**Placement Ratio** - The amount of bonds sold by underwriting syndicates each week as a percentage of the amount issued that week by issuers selling \$1,000,000 par value or more of securities. The ratio published by The Bond Buyer, helps gauge the demand for municipal bonds in the marketplace.

**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, and the placement ratio 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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