

## Trading Desk Commentary

Tapering and the Middle East engaged in a week-long game of tug o' war with US debt markets as participants seemed torn between the rising tensions in Syria and the prospect of Fed stimulus reduction. Fed tapering was at the forefront of investors' minds throughout the month, and based on the higher yields across the curve, it appears traders believe that the likelihood of tapering has risen. Doing little to derail that presumption, most new economic data remained stable, with the only exception being last Friday's surprisingly bad New Home Sales number that showed potential weakness in the housing sector as a result of mortgage rates at their highest point since 2011. Since that datapoint, economic releases have looked a bit healthier, and anticipation is already mounting ahead of the September 18th Fed statements, in which many expect tapering will be announced or at least a clearer timetable provided. The yield backup in August would have almost certainly been more pronounced had the Syrian crisis not reared its ugly head. Horrific images of the chemical attack have spurred outrage among international leaders, with Secretary of State John Kerry citing 'undeniable' evidence that Syrian civilians were attacked by their own government. The next step for the US and our allies remains undecided, and the lack of clarity with respect to the degree of US involvement generated enough skittishness to send US Treasury yields lower as some investors sought safety. Whether a tumultuous geopolitical picture will weigh into the Fed's tapering decision remains unclear as well. The old saying, 'don't fight the Fed,' is generally sage advice, though it also helps to know where exactly it stands. Managing through the volatility right now requires close surveillance of both US economic recovery indicators and, simultaneously, new developments in the Middle East. These factors alone leave investors with a full plate.

In Muniland supply remains very light heading into the Labor Day holiday, not atypical for this time of year. Bond Buyer's 30-day visible supply number is hovering around \$5.6bln, and next week we expect less than \$2bln during the holiday-shortened week. Broader rate moves and US Treasury volatility continue to overwhelm the effects of Muni fundamentals, rendering them beside the point. It seems like an age ago when US Muni sentiment could be largely gauged by its own supply and credit outlook, as opposed to policy uncertainty and geopolitical unrest. Those deals that did come to market this past week seemed to fare just fine. A \$656mln (NR/AA-) NYC Housing Dev Corp revenue deal, one of the larger deals of the week, saw its prices jump higher by the end of its order period. The deal was likely aided by this year's constrained New York supply, which is trailing historical averages. Muni bond fund outflows maintained their momentum again this week, with \$1.7bln leaving the funds, according to Lipper. Serious Puerto Rico concerns are probably contributing to the fund aversion given Puerto Rico's large presence in many mutual funds and ETFs. Puerto Rico's debt has gotten hammered with credit spreads widening severely in light of the commonwealth's budget and pension problems. Rating agencies have taken notice and have continued downgrading the commonwealth and leaving it on negative watches. At Baa3(neg)/BBB-(neg)/BBB-(neg), Puerto Rico has no breathing room before a downgrade makes its debt below investment grade. We continue to avoid the commonwealth's debt in all of its iterations. We hope everyone enjoys a hard-earned Labor Day respite.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.43	0.00	0.43	113%
5 Year	1.51	0.01	1.50	94%
10 Year	2.94	-0.02	2.96	107%
30 Year	4.45	-0.01	4.46	121%
UST Rates				
2 Year	0.38	-0.02	0.40	
5 Year	1.60	-0.06	1.66	
10 Year	2.75	-0.07	2.82	
30 Year	3.68	-0.12	3.80	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$1.26	\$2.93
Competitive	\$0.29	\$1.37
<b>TOTAL</b>	<b>\$1.55</b>	<b>\$4.30</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$5.64</b>	<b>\$7.41</b>
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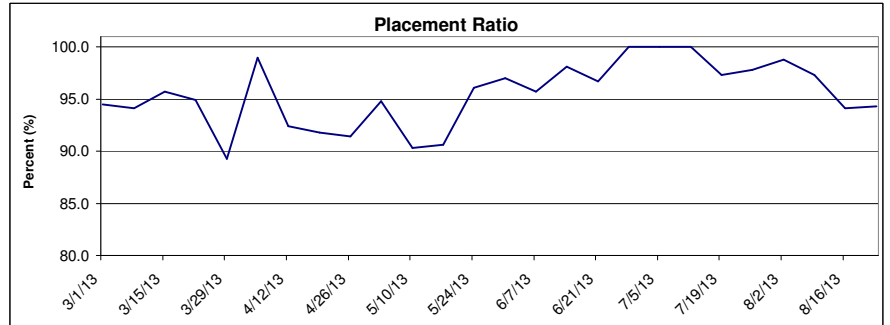
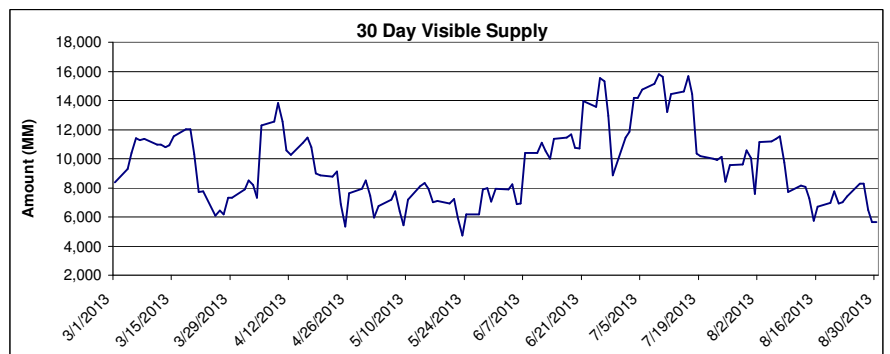
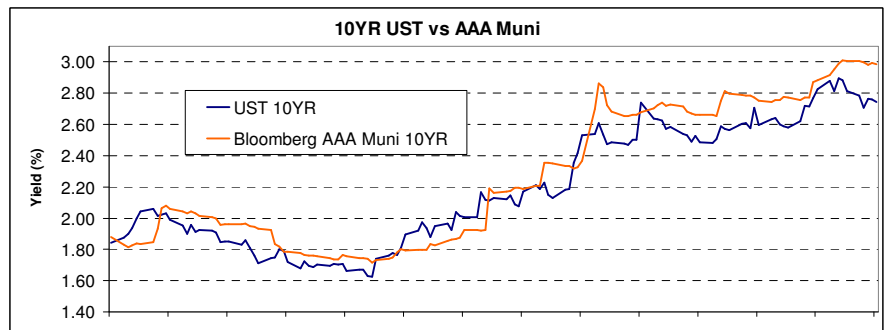
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$15.22</b>	<b>\$15.58</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>94.3%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.96%</b>	<b>4.91%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
9/3	ISM Manufacturing	Aug	54.0	55.4
9/4	MBA Mortgage Applications	30-Aug	--	-2.5%
9/4	Trade Balance	Jul	-\$38.8B	-\$34.2B
9/4	U.S. Federal Reserve Beige Book			
9/5	ADP Employment Change	Aug	184K	200K
9/5	Initial Jobless Claims	31-Aug	330K	331K
9/5	Factory Orders	Jul	-3.5%	1.5%
9/6	Change in Nonfarm Payrolls	Aug	180K	162K
9/6	Unemployment Rate	Aug	7.4%	7.4%



## 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 and NY
Core Plus ETF	Min  Max		Slight Overweight to Corporates and BABs
Tactical Opportunity ETF	Min  Max		Slight Overweight Munis, Underweight Taxables

**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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