












Trading Desk Commentary

Since the start of the week, market participants have been preparing for today's jobs releases. Many expected to see an upside surprise versus the +200k survey given the winter's harsh weather. The thought being that the winter storms disrupted job searches. 'Whisper' consensus in the street suggested a +230-240k number was the most likely outcome. Wednesday's ADP Employment Change showed a healthy revision to its February release, rising from the original +139k print to +178k. This seemed to set the table for Nonfarm Payroll's own upward revision today. What actually happened was not quite as dramatic. The March Nonfarm Payroll data actually trailed forecasts, coming in with +192k versus the +200k survey. The prior month did see an upward revision (from +175k to +197k). The 10-year US Treasury yield used the early part of the week to sneak back up to a 2.80%, roughly where it was prior to the March 7th Nonfarm release, which ultimately disappointed and reinvigorated a flight to safety. This 2.80-2.82% level appears to be an important point of resistance. The UST 10-year appears eager to test the threshold but cannot get the inflation or jobs data it needs to finally punch through. We wrestled with getting a bit more defensive in our duration profile ahead of the jobs number given the possibility of a meaningful upside surprise in today's data, especially if the 'weather effect' imparted a powerful influence in January and February. However, we decided to stay focused on our longer-term outlook. In short, recent economic activity does not instill an overwhelming amount of confidence from our Investment Team that domestic growth is gathering momentum. The data still looks pretty tepid – good numbers can be paired with disappointments. As long as this is the case, we expect a range-bound interest rate environment and therefore one that warrants a neutral duration posture. In this scenario, at least in the short-term, we expect fairly muted price risk in bonds, though there will likely be intraweek periods of heightened volatility. In such an environment, where the next rate cycle has yet to emerge, we want to stay patient with duration and boost yield where we can to add value. A larger Nonfarm Payroll number today would have probably had us thinking about the next 4-6 weeks differently. The ho-hum jobs data leaves us feeling comfortable about our recent approach.

We are still facing familiar challenges in the Municipal bond space. The Bond Buyer 30-day visible supply is still hovering in the \$7bln range though a bit more than \$5bln of that total is expected next week. That weekly total is a touch higher than we have seen in recent weeks, but not by a significant amount. A \$650mln (Aa1/AAA) New York City Transitional Finance Authority revenue loan will lead the way – likely a welcome sight to the supply-starved Muni investors of the Empire State. A quick glance at the rest of next week's supply shows an assortment of general obligation, power, healthcare, education, water and housing revenue deals from around the country, occupying a large portion of the investment-grade credit spectrum. Lipper reported a second week of negative Muni bond fund flows (-\$81mln), but like last week, we are still chalking it up to selling ahead of Tax Day as opposed to a dramatic shift in Muni appetite. Furthermore, the magnitude of divestitures is small relative to the cumulative inflows thus far in 2014. The stable rate environment and constrained supply continue to support tax-exempts. Munis are on firm ground with a stable near-term outlook. Narrow Muni-to-Treasury ratios are providing Munis with very little cushion to US Treasury moves, meaning that Munis are especially vulnerable to global macro/geopolitical risks. Muni managers and traders must keep their bifocals on – responding to Muni-specific dynamics with constant surveillance of domestic and international developments.

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
Core Plus ETF	Min  Max		Slight Overweight to Corporates
Tactical Opportunity ETF	Min  Max		Overweight Taxables to Munis

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.39	0.00	0.39	95%
5 Year	1.30	-0.01	1.31	76%
10 Year	2.49	0.02	2.47	91%
30 Year	3.64	0.01	3.63	101%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.41	-0.04	0.45
5 Year	1.70	-0.04	1.74
10 Year	2.73	0.02	2.71
30 Year	3.59	0.05	3.54

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.74	\$2.90
Competitive	\$1.45	\$0.77
TOTAL	\$5.19	\$3.67

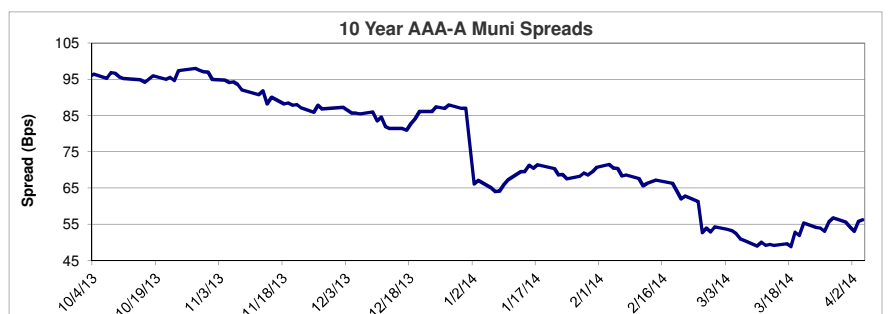
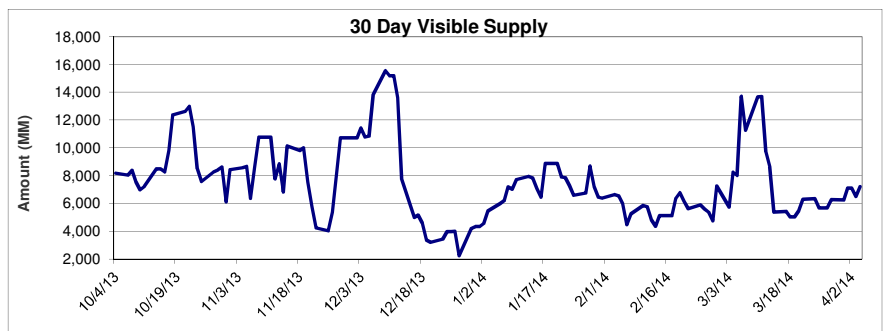
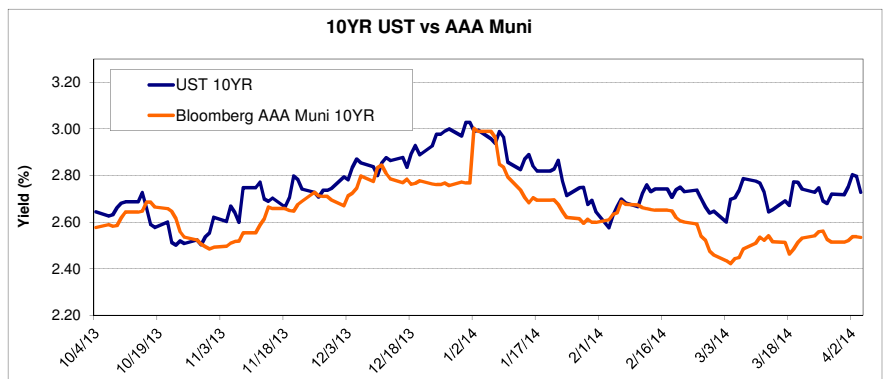
Municipal 30 Day Visible Supply (\$ Bln)	\$7.21	\$6.28
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Bloomberg Muni PICK Offerings (\$ Bln)	\$13.98	\$15.25
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Bond Buyer 20 Municipal G.O. Index	4.44%	4.43%
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Select Economic Releases

Date	Event	Period	Survey	Prior
4/9	MBA Mortgage Applications	4-Apr	--	-1.20%
4/9	Wholesale Inventories MoM	Feb	0.50%	0.60%
4/10	Initial Jobless Claims	5-Apr	320K	326K
4/10	Import Price Index MoM	Mar	0.20%	0.90%
4/10	Continuing Claims	29-Mar	2831K	2836K
4/11	PPI Final Demand MoM	Mar	0.10%	-0.10%
4/11	PPI Final Demand YoY	Mar	1.20%	0.90%
4/11	PPI Ex Food and Energy MoM	Mar	0.20%	-0.20%
4/11	PPI Ex Food and Energy YoY	Mar	1.10%	1.10%
4/11	Univ. of Michigan Confidence	Apr P	81.00	80.00



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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