Weekly Trading Desk Update

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December 12, 2014

Trading Desk Commentary

Global markets extended their risk-off streak today, resulting in stocks' worst week in a couple of months. New economic releases reinforced the ongoing global slowdown, oil prices tumbled and inflation prospects weakened. As US and global participants recalibrate their inflation outlooks and/or flock to US debt given its relative value versus other sovereign yields, intermediate and longer-dated US Treasuries are rallying hard. 10 Year US Treasury yields are holding below 2.10% today, which means they are trading at their highest prices since June 2013. US Muni debt is following suit, putting together another positive month-to-date despite dealing with the year's highest Muni supply totals. The big losers in the global slowdown scenario that is playing out? Oil and equities. Oil is trading at its lowest level since the financial crisis, and while cheap oil is putting extra spending money in consumers' pockets (and probably fueling today's surprisingly positive University of Michigan Confidence print of 93.8), oil's skid signifies big macro growth problems. That is worrisome for domestic multinational and energy companies – not to mention for countries like Russia that depend heavily on robust oil prices and user demand. The world picture is a bleak one, and while we should take comfort that the US is leading in the recovery process, conditions have grown too negative in Europe and Asia for the US to come out unscathed. At the beginning of the year, it was very difficult to believe that US yields would move lower in 2014. We believed that US Treasury momentum would push yields slowly upwards over the course of 2014 with periods of significant short-term volatility. We believed (and still believe) that the US economy was not organically strong enough to justify a spike in US rates, though the process of tapering and an unknown Fed timetable could have encouraged it. We and essentially every economist and forecaster, both casual and professional, got it wrong. At the time, the sunset of the Fed's asset purchasing program and an improving US economy (which has continued in most respects), was not yet being offset by economic and geopolitical struggles overseas. Today we know those forces entered 2014 with a vengeance. The Fed completed tapering and is now trying to enter rate hike mode if and when it can. Meanwhile, other central banks around the world are easing at an increasingly aggressive pace, trying desperately to stave off deflation and recession. Now we have two very distinct and very strong cross currents created by moderate US growth and global deterioration. For the near-term, we expect the flight-to-quality to continue. US bond auctions continue to enjoy booming demand even at these low yield levels, and inflation is not going to become part of the discussion again for some time. We believe that, given the overseas demand for US debt, current yields are justifiable and could in fact continue to grind lower, especially if oil can't find its footing. What a difference a year makes.

The powerful US Treasury backdrop boosted Munis just when they needed it most. We just finished two massive supply weeks relative to the supply to which participants grew accustomed in 2014. Firm rates nurtured healthy Muni demand, and dealers were able to distribute close to $11bln in supply over the past five days (of which we were an active buyer). It's hard not to be very positive towards Munis as we head into year-end and 2015: visible Muni supply should dry up over the course of the next week or so ahead of the Christmas holiday, and Municipal buyers will likely remain active in the secondary and try to get money to work before the holidays. Then, January rolls around and will offer some of the strongest reinvestment demands of the year. This is all supportive of stable-to-stronger tax-exempts. Our long-neutral bias has served December performance well. We continue to invest to this duration target and avoid the shortest part of the Muni curve. We will be active buyers again next week – the last full trading week of 2014.

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		Neutral Taxables to Munis

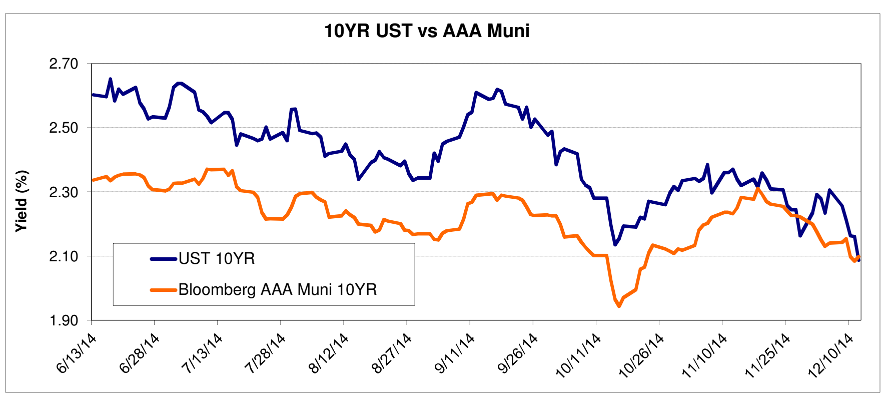
Market Overview

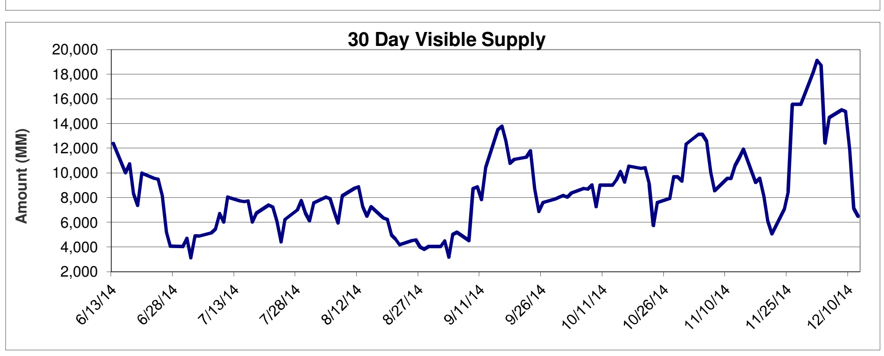
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.39	0.00	0.39	72%
5 Year	1.21	0.01	1.20	80%
10 Year	1.98	-0.11	2.09	95%
30 Year	2.88	-0.20	3.08	105%
UST Rates				
2 Year	0.54	-0.09	0.63	
5 Year	1.51	-0.16	1.67	
10 Year	2.08	-0.22	2.30	
30 Year	2.74	-0.27	3.01	

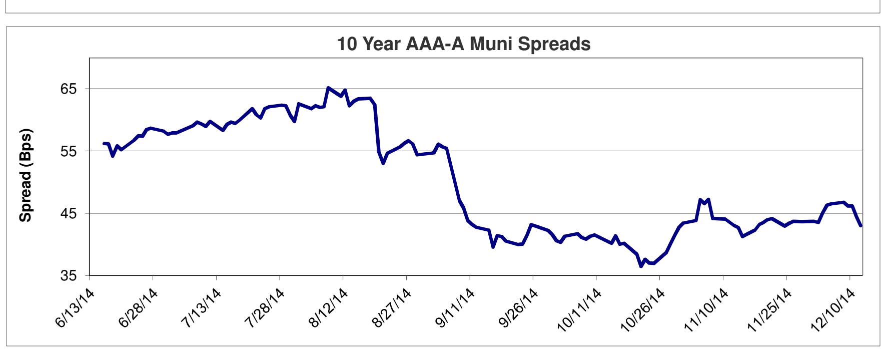
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$2.94	$9.60
Competitive	$0.67	$1.70
TOTAL	**$3.61**	**$11.30**
Municipal 30 Day Visible Supply ($ Bln)	**$6.48**	**$14.51**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.33**	**$12.35**
Bond Buyer 20 Municipal G.O. Index	**3.65%**	**3.83%**

Select Economic Releases

Date	Event	Period	Survey	Prior
12/15	Empire Manufacturing	Dec	12.00	10.16
12/15	Industrial Production MoM	Nov	0.70%	-0.10%
12/16	Housing Starts	Nov	1040K	1009K
12/16	Markit US Manufacturing PMI	Dec P	55.80	54.80
12/17	MBA Mortgage Applications	12-Dec	--	7.30%
12/17	CPI MoM	Nov	-0.10%	0.00%
12/17	FOMC Rate Decision (Upper Bou	17-Dec	0.25%	0.25%
12/18	Initial Jobless Claims	13-Dec	295K	294K
12/18	Leading Index	Nov	0.60%	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.