

Trading Desk Commentary

US Treasuries marched higher this week in rather volatile trading sessions driving yields lower across the curve. With trading volume noticeably reduced and soft economic data continuing to hit the wires, expectations of a September rate hike are higher versus any action in June. The Fed's beige book was released Wednesday, and Fed governor Fischer expressed concerns about tightening too early, both of which further dampened some of the aggressive rate hike forecasts for 2015. Beyond the weak US economic numbers lies what we see as the biggest reason for the persistent firm treasury bid: continued sovereign yield deterioration. The Greece situation has been unraveling for about a month now but has managed to stay out of top headlines as markets have become rather immune to the panic that surrounds the name. With the ECB quantitative easing program well under way and a "Grexit" threatening to be an actual possibility, we see the US treasury rally continuing as all roads in the global hunt for yield lead straight to USTs. Oil is making its move to \$60/barrel for the first time this year spurred by a light inventory growth report Wednesday morning. Stock markets across the globe had a disappointing Friday as weaker earnings and economic growth concerns led to a risk off trading session in which the S&P 500 was off more than a percent on the day. As aforementioned, given geopolitical concerns in Europe and potential for market moving headlines to surface in the coming weeks, we expect a grind higher in UST prices and will remain diligent in our duration positioning.

Another large municipal calendar was digested this week with relative ease. Many of this week's deals saw significant oversubscription and subsequent bumps to their scales. This was particularly prevalent in lower-rated transactions as investors continue to seek out yield in this seemingly perpetual low-rate environment. We participated in one of the larger deals of the week, the \$367mm University of Pennsylvania Health System (Aa3/AA-) transaction. After Wednesday's retail order period, roughly half the transaction had been put away, with several maturities more than 5x oversubscribed. The flood gates opened on Thursday's institutional release, and after the two-hour order period ended, the book held over \$1.5 billion in orders (4x oversubscribed). On the other hand, the Commonwealth of Virginia GO (Aaa/AAA/AAA) deal that sold competitively on Wednesday had spreads on top of, and, in some maturities through, the AAA MMD scale 10 years and under. As of this note, hefty balances remained on dealer books, which has been the theme with several high-grade mid-Atlantic GO competitive offerings over the past couple of weeks. The secondary market again took a back seat to the heavy primary market; however, we were able to find value in this overlooked segment and bought several large blocks of highly-rated bonds from dealers willing to take additional concessions to unload inventory. With tax season out of the way and supply easing up in the near-term, we expect a somewhat firmer tone in munis this week.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni		0 YRS - 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable		0 YRS - 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni		0 YRS - 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable		0 YRS - 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF			Overweight to CA
Core Plus ETF			Slight Overweight to Corporates
Tactical Opportunity ETF			Neutral Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.51	0.00	0.51	100%
5 Year	1.22	0.00	1.22	94%
10 Year	1.94	-0.03	1.97	104%
30 Year	2.83	-0.01	2.84	112%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.51	-0.04	0.55
5 Year	1.30	-0.09	1.39
10 Year	1.86	-0.08	1.94
30 Year	2.52	-0.06	2.58

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.65	\$6.28
Competitive	\$2.38	\$1.97
TOTAL	\$8.03	\$8.25

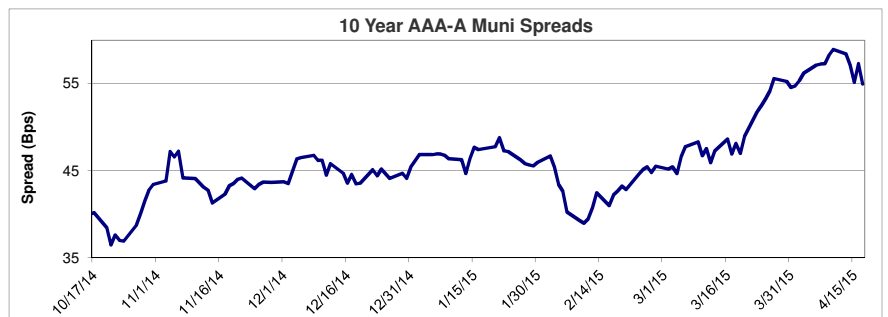
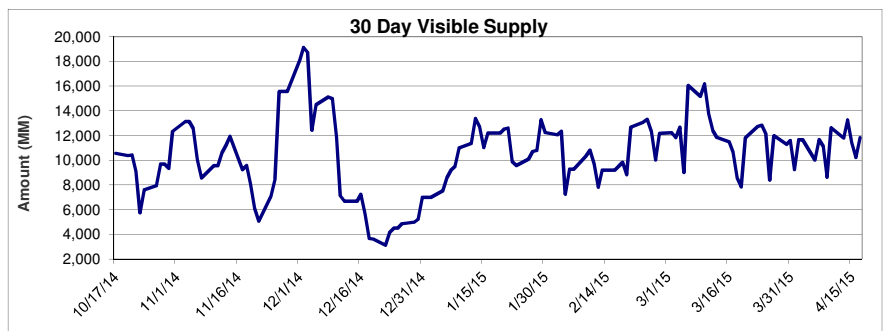
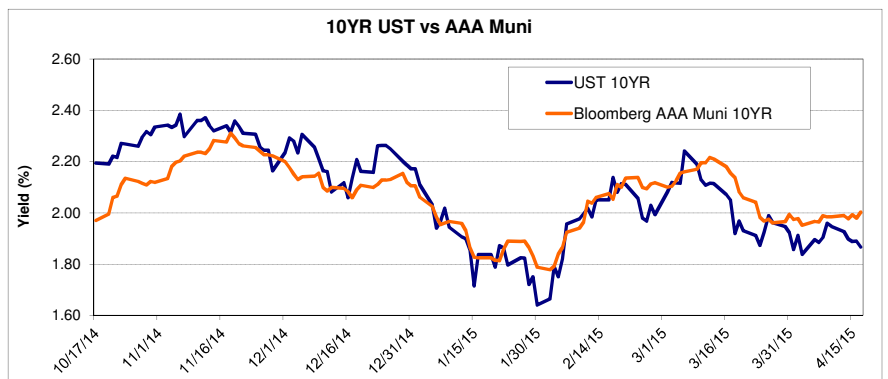
Municipal 30 Day Visible Supply (\$ Bln)	\$11.83	\$12.63
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Bloomberg Muni PICK Offerings (\$ Bln)	\$13.95	\$14.00
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Bond Buyer 20 Municipal G.O. Index	3.45%	3.49%
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Select Economic Releases

Date	Event	Period	Survey	Prior
4/22	MBA Mortgage Applications	17-Apr	--	-2.30%
4/22	FHFA House Price Index MoM	Feb	0.60%	0.30%
4/22	Existing Home Sales	Mar	5.03M	4.88M
4/23	Initial Jobless Claims	18-Apr	290K	294K
4/23	Markit US Manufacturing PMI	Apr P	55.70	55.70
4/23	New Home Sales	Mar	510K	539K
4/24	Durable Goods Orders	Mar	0.60%	-1.40%
4/24	Durables Ex Transportation	Mar	0.30%	-0.40%



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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