

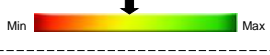

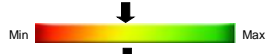

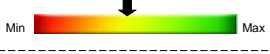

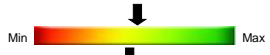




Trading Desk Commentary

Another week of trading sessions in the books, and again it was anything but a sleepy summer week. Stealing the wires was the PBOC cutting their reference rate by the most in two decades, subsequently devaluing the yuan. Initial trading led to a treasury bid, and, even with US economic data coming in consistent with expectations, long rates were slow to return to early week levels. The devaluation of the yuan was expected sometime in the near future by economists and strategists, but many question why they chose a slow week in the middle of August. Regardless, market probabilities for the anticipated Fed hike shifted dramatically overnight after the devaluation and have since anchored with a tilt towards December. Contrary to what the media would have you believe, we don't expect that China, energy prices, and other drags on global economic growth will have an affect on the timing of the first hike. However, we could see it impacting the gradual forecasted process of rate/policy normalization. As we have discussed in the recent weeks, markets are moving past the fact that short rates are going up, whether it's September or December is becoming less relevant to investors. A more alarming issue is what is going to be the catalyst for increasing long term rates. Given the observable flattening trade that has persisted for the better part of a month, it is clear that rate markets are not bullish on long term growth in the economy.

In the land of municipal trading, muni's, as is typical, underperformed their taxable counterparts in a muted rally this week. Traders found relative value in the long end of the curve, beginning in ten years. We've seen noticeable spread compression in high grade specialty state paper (specifically NC and GA) in the secondary over the last few weeks. This was showcased by the \$400M Charlotte water/sewer issue that we participated in this week; the issuer carries AAA on both sides and was already priced a bit rich at spreads of about 5-13bps. The deal was oversubscribed anywhere from 1-7 times in some maturities presenting more attractive relative value maturities. Oversubscriptions bumped these maturities as much as 8 bps, bringing them flat to the MMD scale. This is a good example of how starved the market is for high grade paper and how much investors are willing to pay up for it. Headlines were rather quiet while markets waited to hear on further Puerto Rico conclusions, but a noteworthy story was the announcement of the 2016 subsidy cuts for BABs due to sequestration. The cuts were reduced to 6.8% vs the 7.3% in 2015. Although a credit positive, we believe the impact will be minimal on the issues we buy. Volume remains low but we believe it will pick up as it typically does in the next month or so, given historical seasonal averages. Until next week.

Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni			Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable			Slightly Shorter Positioning Given Volatiltiy
Intermediate Muni			Slightly Shorter Positioning Given Volatiltiy
Intermediate Taxable			Slightly Shorter Positioning Given Volatiltiy
Tactical Muni ETF			Neutral Duration, Overweight to CA
Core Plus ETF			Neutral Duration, Overweight to Treasuries
Tactical Opportunity ETF			Neutral Duration, Overweight Munis

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.64	0.00	0.64	88%
5 Year	1.35	0.00	1.35	85%
10 Year	2.20	-0.01	2.21	101%
30 Year	3.07	-0.01	3.08	108%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.72	-0.06	0.78
5 Year	1.59	-0.03	1.62
10 Year	2.19	-0.02	2.21
30 Year	2.84	-0.02	2.85

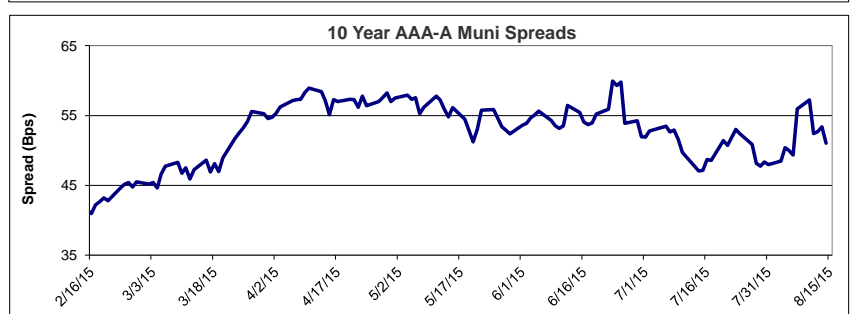
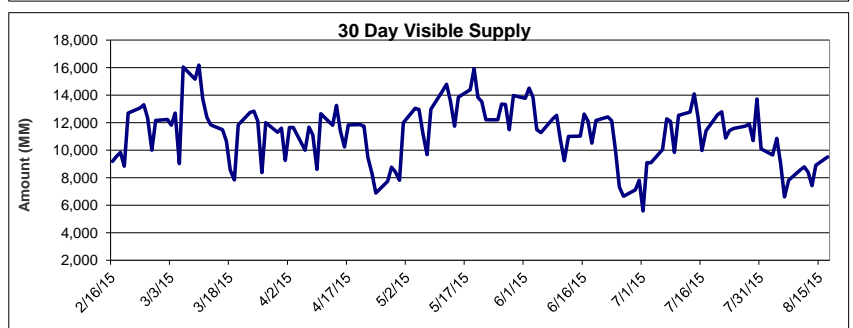
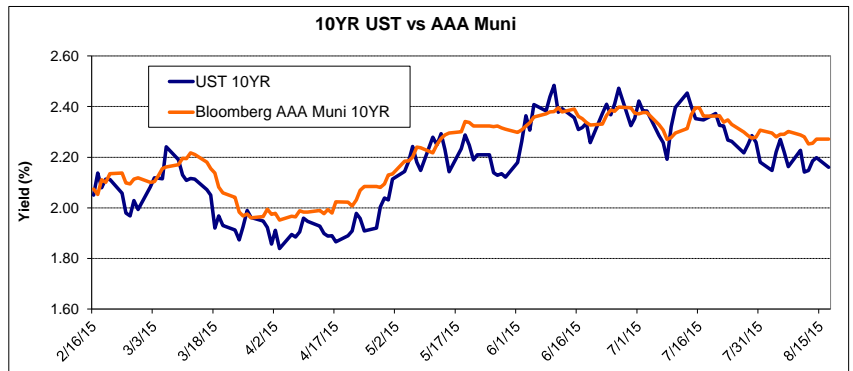
	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$4.40	\$3.35
Competitive	\$1.12	\$0.50
TOTAL	\$5.52	\$3.85

Municipal 30 Day Visible Supply (\$ Bln)	\$8.92	\$7.81
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Bloomberg Muni PICK Offerings (\$ Bln)	\$13.84	\$15.29
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Bond Buyer 20 Municipal G.O. Index	3.69%	3.75%
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Date	Event	Period	Survey	Prior
8/17	Empire Manufacturing	Aug	4.5	3.86
8/18	Housing Starts	Jul	1183K	1174K
8/19	MBA Mortgage Applications	8/14	--	0.10%
8/19	CPI MoM	Jul	0.20%	0.30%
8/19	CPI YoY	Jul	0.20%	0.10%
8/19	July FOMC Meeting Minutes			
8/20	Initial Jobless Claims	8/15	271K	274K
8/20	Continuing Claims	8/8	2265K	2273K
8/20	Existing Home Sales	Jul	5.43M	5.49M
8/20	Philly Fed Business Outlook	Aug	6.8	5.7
8/21	Markit US Manufacturing PMI	Aug P	53.8	53.8



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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