

Trading Desk Commentary

The U.S. dominated global headlines as we had a very busy week in terms of news and economic releases. As anticipated, the Fed chose not to raise benchmark rates in October. However some minor changes to the Fed's language gave fuel to the hawks. The slight changes in the minutes were largely viewed as aggressive as the Fed downplayed global events and made specific references to the next meeting on December 16. Many viewed this as a signal that the first hike would occur this calendar year, which is what market participants have thought – and many have wished – would happen since the beginning of the year. After the minutes were released, the probability of a fed hike in December rose from 33% to 50%, according to Fed Fund futures. A subsequent sell-off in Treasuries was a follow through from the perceived hawkish comments and the increased probability of a December lift-off. We believe the quick and aggressive sell-off was overdone. The language specifically referenced the next meeting – but that still does not suggest that the Fed will raise rates at that meeting. That option has always existed, as the Fed as always said that every meeting is a “live” meeting. The requirements that the Fed has suggested is needed to raise rates have not changed; therefore, stubbornly low inflation must improve (among other indicators) for the Fed to move---not a mere reference to a specific meeting. Shifting gears to one of those important indicators in which the Fed will want to see strength is Q3 GDP. On Thursday we received our first glimpse of this print, which missed slightly but was very close to expectations (1.5% vs. 1.6%). The slowdown from the 3.9% print in Q2 was largely attributed to U.S. companies bringing down inflated inventories that had been building from previous quarters. Although the drop from 3.9% growth to 1.5% growth is significant, many economists predict that it will be temporary. The drag from inventories was partially offset by consumers who are benefitting from cheaper gas at the fuel pumps. Consumer spending, which is the largest driver of GDP grew 3.2% percent vs. 3.6% during Q2. In other news, Washington reached a deal to avoid a U.S. default, the now-typical 11th hour agreement, which cleared the House on Wednesday was passed by the Senate on Friday just days before next week's November 3 deadline. The bill extends the U.S.'s borrowing ability through March 2017.

Taking a quick look at the municipal market for the week, light issuance continued yet again. The light calendar led to high demand in the primary market. Many deals saw heavy oversubscription and bumps to their respective scales. Two of the larger transactions of the week were for Broward County (Ft. Lauderdale Airport) and the State of Tennessee. Both large transactions had the attention of markets, and both scales were bumped after going to market. We participated in a Loudoun County transaction that came through the County's Economic Development Authority. Bond proceeds were being used for essential projects including government office buildings and a new Emergency 911 communications center. The bonds, not backed by a GO pledge, are subject to annual appropriation, but, due to the essentiality of the projects and the fact that Loudoun is a very strong county within a very strong state, we were comfortable with the transaction. Muni yields outperformed their Treasury counterparts on the week due to the sharp sell-off in Treasuries. Current ratios stand at 75%, 94%, and 104% in five, ten, and thirty years, respectively. Next week's calendar is larger than last week's, but it is lighter than the average weekly calendar year-to-date. This should lead to an increased focus in the primary, where we are still seeing value over the majority of secondary market offerings. We hope everyone had a fun and safe Halloween weekend.

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	Slightly Shorter Positioning Given Volatility
Intermediate Muni		0 YRS - 17 YRS	Neutral Positioning Given Global Weakness
Intermediate Taxable		0 YRS - 12 YRS	Neutral Positioning Given Global Weakness
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	0.54	-0.01	0.55	75%
5 Year	1.17	-0.04	1.21	77%
10 Year	2.04	0.00	2.04	95%
30 Year	3.07	0.00	3.07	105%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.72	0.08	0.64
5 Year	1.52	0.10	1.42
10 Year	2.14	0.06	2.09
30 Year	2.92	0.02	2.90

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$4.30	\$2.77
Competitive	\$1.50	\$1.40
TOTAL	\$5.80	\$4.17

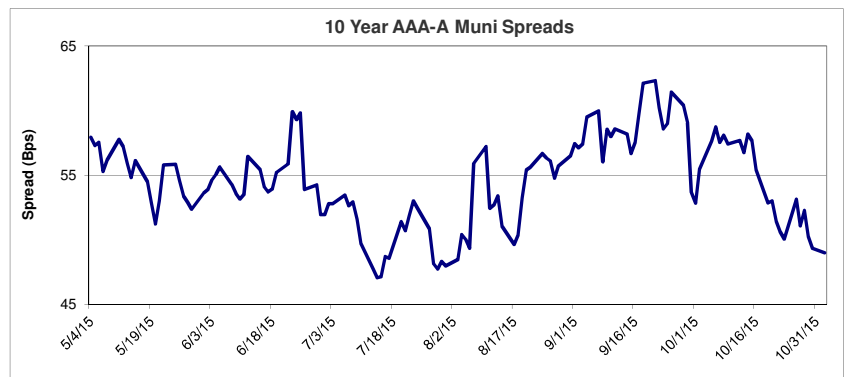
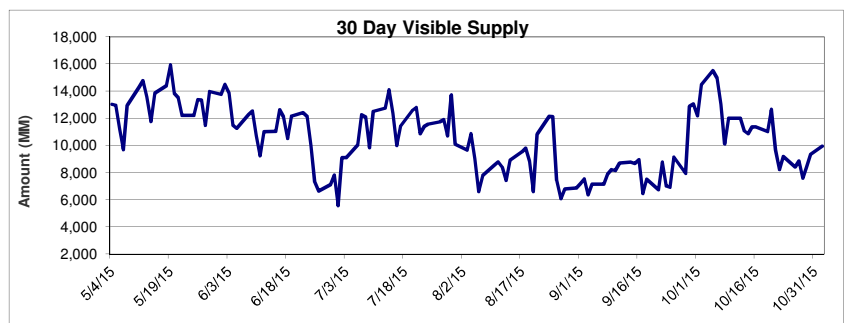
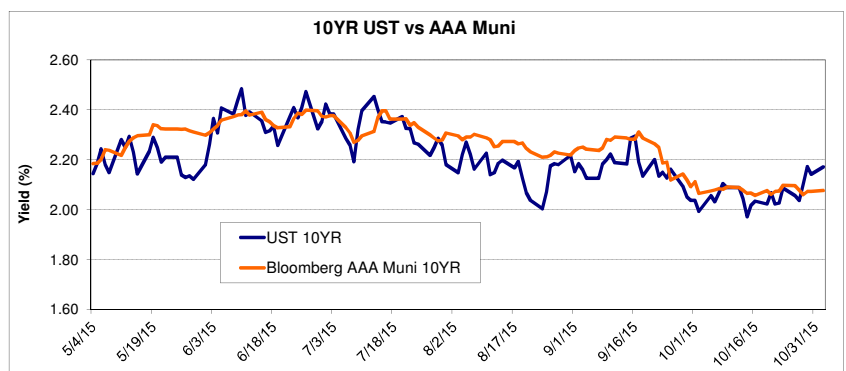
Municipal 30 Day Visible Supply (\$ Bln)	\$9.32	\$9.19
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Bloomberg Muni PICK Offerings (\$ Bln)	\$14.58	\$13.41
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Bond Buyer 20 Municipal G.O. Index	3.66%	3.67%
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Select Economic Releases

Date	Event	Period	Survey	Prior
11/2	ISM Manufacturing	Oct	50.00	50.20
11/2	Markit US Manufacturing PMI	Oct F	54.00	54.00
11/2	Construction Spending MoM	Sep	0.50%	0.70%
11/3	Factory Orders	Sep	-0.90%	-1.70%
11/4	MBA Mortgage Applications	30-Oct	--	-3.50%
11/4	Trade Balance	Sep	-\$41.00b	-\$48.33b
11/4	ADP Employment Change	Oct	180k	200k
11/4	ISM Non-Manf. Composite	Oct	56.50	56.90
11/5	Initial Jobless Claims	31-Oct	260k	260k
11/6	Change in Nonfarm Payrolls	Oct	184k	142k
11/6	Unemployment Rate	Oct	5.00%	5.10%



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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