








Trading Desk Commentary

Flat continues to be the new positive as treasury rates finished the week mildly higher, resulting in a slightly flatter curve as front end rates outpaced long rates in the move up. We have been discussing a possible over-reaction or too much fear priced into the market in general, and this week's softening supports that theory. US economic data that hit the wires was mixed overall and left market participants with a general consensus that, although the economy isn't bustling, it is not necessarily showing signs of distress that would lead to another large scale recession in the very near term. Our second look at Q4 GDP printed Friday morning at a 1.0% vs 0.4% survey. The surprise upward was due to a much larger than expected inventory build that led it to be less of a detractor from growth. It is still very apparent that markets are fragile and continue to trade subject to global headlines and energy prices. The continued expectation of accommodative monetary policy around the globe is keeping sovereign rates in a downward trajectory with no signs of relief. With the March FOMC meeting right around the corner, derivative markets have completely disregarded the March meeting as a possibility for a hike and are still not convinced that there will even be one more hike this year. The probability of a hike doesn't reach 50% until the December meeting. Volatility will continue to persist as participants digest new data each session. Prudently identifying and managing strategy risk will be an investors best tool through these turbulent times and should remain an important factor in the decision making process.

Over in the tax-exempt market, demand is not keeping pace with a heavier new issuance calendar relieving built up pressure on muni rates. New issue deals are still being cut in order periods to attract buyers and muni-to-treasury ratios are continuing to soften with the 30Y back around 110%. This will likely bring some crossover buyers back in to the space after a couple month hiatus. The secondary trading environment has been scattered, contributing to a soft bidside and often more difficult price discovery. Municipal funds saw another week of inflows totaling just under 700M. Next week's calendar is the largest we've seen in 2016 with the Los Angeles Unified School District loan (\$1.2B) and Massachusetts State GO (\$1.1B) leading the charge. Given a soft seasonal technical outlook and another week of heavier supply, underperformance in munis should continue as we expect rates to grind wider.

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, Neutral Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.54	0.02	0.52	68%
5 Year	0.93	0.10	0.83	75%
10 Year	1.76	0.10	1.66	100%
30 Year	2.80	0.02	2.78	106%

UST Rates

2 Year	0.79	0.05	0.74
5 Year	1.24	0.02	1.22
10 Year	1.76	0.02	1.74
30 Year	2.63	0.03	2.60

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$8.90	\$4.40
Competitive	\$1.30	\$2.60
TOTAL	\$10.20	\$7.00

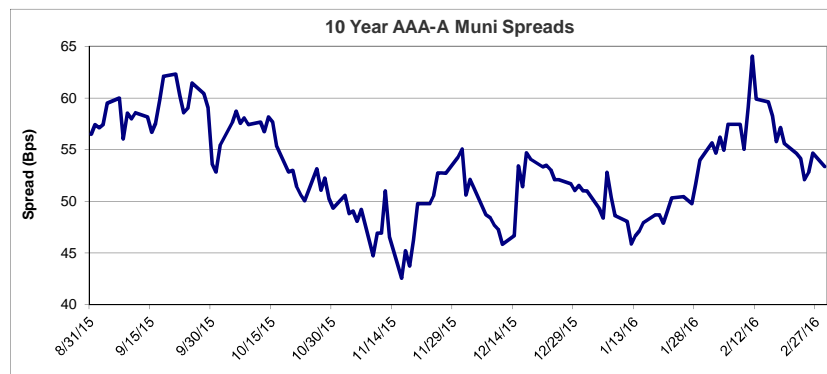
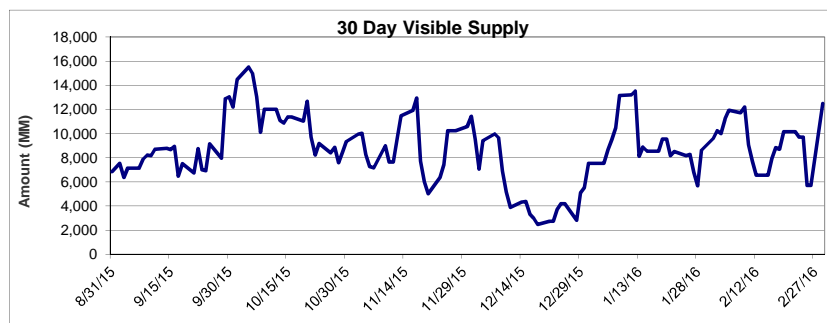
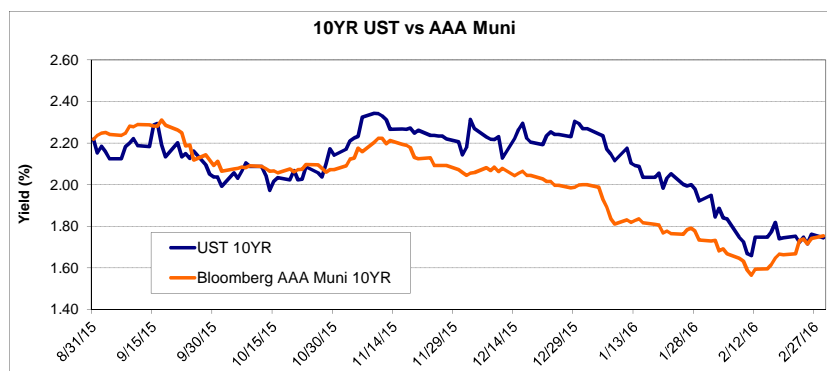
Municipal 30 Day Visible Supply (\$ Bln)	\$5.71	\$10.16
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Bloomberg Muni PICK Offerings (\$ Bln)	\$1.37	\$1.41
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Bond Buyer 20 Municipal G.O. Index	3.34%	3.27%
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Select Economic Releases

Date	Event	Period	Survey	Prior
2/29	Chicago Purchasing Manager	Feb	52.5	55.6
3/1	ISM Manufacturing	Feb	48.5	48.2
3/1	Markit US Manufacturing PMI	Feb F	51.2	51
3/1	Construction Spending MoM	Jan	0.30%	0.10%
3/2	MBA Mortgage Applications	26-Feb	--	-4.30%
3/2	ADP Employment Change	Feb	185k	205k
3/3	Initial Jobless Claims	27-Feb	270k	272k
3/3	Durable Goods Orders	Jan F	--	4.90%
3/3	Factory Orders	Jan	2.10%	-2.90%
3/4	Change in Nonfarm Payrolls	Feb	195k	151k
3/4	Unemployment Rate	Feb	4.90%	4.90%



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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