Weekly Trading Desk Update

CAPRIN
knowledge preserves wealth

@ Caprin_Asset

Media contact: Adam Plotkin aplotkin@caprinbonds.com

March 18, 2016

Trading Desk Commentary

Markets were largely unchanged this week leading up to the anticipated Fed meeting on Wednesday. Prior to the meeting, Monday and Tuesday's economic releases suggested a continued trend of slow growth at home. Retail Sales fell 0.1% in February, while housing starts and building permits came in top of expectations. We also got a look at CPI (-0.2%) and Industrial Production (-0.5% vs. -0.3% expected), both of which failed to drive markets in any direction. On Wednesday, the Fed, as anticipated, did not raise interest rates. The move came with the downward revisions, not only to the federal funds' rate over the next three years, but also the downward revisions to the number of hikes this year, from 4 to 2. These moves confirmed what the market had already priced in. The ongoing disconnect between the Fed's dot plots and what the market believes (OIS curve), have been out of sync for months and it appears the Fed has finally realized that its expected path of rate hikes was lofty. During her dovish statements to the public on Wednesday, Fed Chair Yellen noted that continued risks from global economic and financial developments will continue to impact growth in the U.S. The notion of global economic factors being a hindrance to U.S. growth is becoming more of a factor for the central bank. The Fed can no longer ignore the recent QE measures unleashed by the rest of the central banking world. Last week, the ECB launched an aggressive addition to its ongoing QE initiatives, and this week the Bank of Japan signaled that it stands ready to further cut its policy rate, currently -0.1%. We are not surprised by the Fed's actions; for months we have believed that the economic conditions at home and abroad are simply not conducive to sustained strong growth. The "four hikes in 2016" rhetoric has been resonating from the Fed since its December 2015 meeting, seemed more like a wish, not an actual projection the Fed was confident to stand behind. We were not alone in this thinking (as evidenced by the OIS curve) and wonder if the Fed is finally succumbing to global market forces, despite having told us for years that U.S. data would dictate their policy maneuvers. If this is the case, the Fed could be suffering from a credibility issue after quickly abandoning their planned policy normalization that was laid out in December. Regardless, it appears we have settled into a low interest rate environment for the near term.

In the municipal space, the AAA MMD Index, followed treasury rates lower after the dovish results of the Fed meeting. The market easily absorbed roughly $8 billion in primary issuance with the help of another week of municipal fund inflows. The largest and most anticipated transaction for the week came in the form of $750 million for the newly created Vanderbilt University Medical Center, which spun its hospital operations off into a separate entity from the university. The brand new A3-rated credit, garnered demand from investors across the country and was placed after marginal price bumps to its scale. Next week the calendar is light due to a market holiday on Good Friday. The largest transaction will come from the City of Houston, which was downgraded last week by Moody's. The rating agency cited a weakness in oil related revenues and a growing unfunded pension obligation that needs to be addressed. We are seeing an increased emphasis being put on unfunded pension obligations and how these large liabilities could be a potential drag on future balance sheet stability. The states and localities that have already taken steps to address these obligations, stand to benefit in the form of tighter credit spreads and increased market demand for their bonds. We hope everyone is enjoying March Madness, please feel free to reach out if you have questions regarding the markets, as our brackets are already busted.

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	Slightly Shorter Positioning Given Volatiltiy
Intermediate Muni	Min – Max	0 YRS – 17 YRS	Neutral Positioning Given Global Weakness
Intermediate Taxable	Min – Max	0 YRS – 12 YRS	Neutral Positioning Given Global Weakness
Tactical Muni ETF	Min – Max		Neutral Duration, Overweight to CA
Core Plus ETF	Min – Max		Neutral Duration, Overweight to Treasuries
Tactical Opportunity ETF	Min – Max		Neutral Duration, Neutral Munis to Taxables

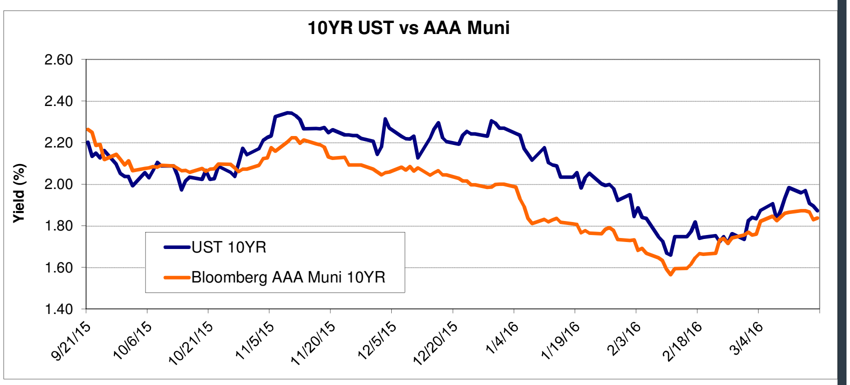
Market Overview

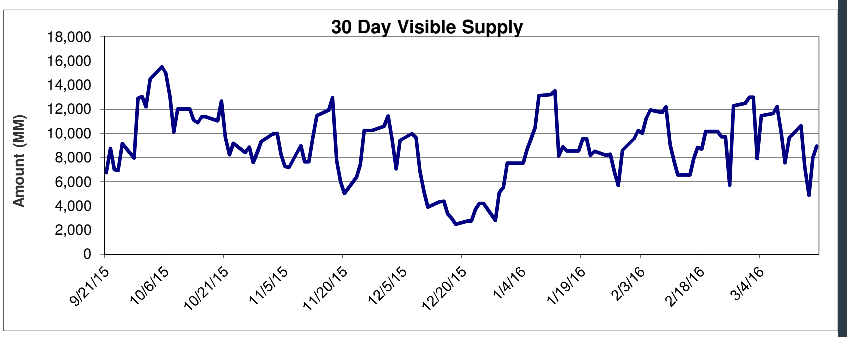
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.67	0.01	0.66	80%
5 Year	1.12	-0.01	1.13	84%
10 Year	1.83	-0.06	1.89	98%
30 Year	2.79	-0.06	2.85	104%
UST Rates				
2 Year	0.84	-0.13	0.96	
5 Year	1.33	-0.16	1.49	
10 Year	1.87	-0.11	1.98	
30 Year	2.68	-0.08	2.75	

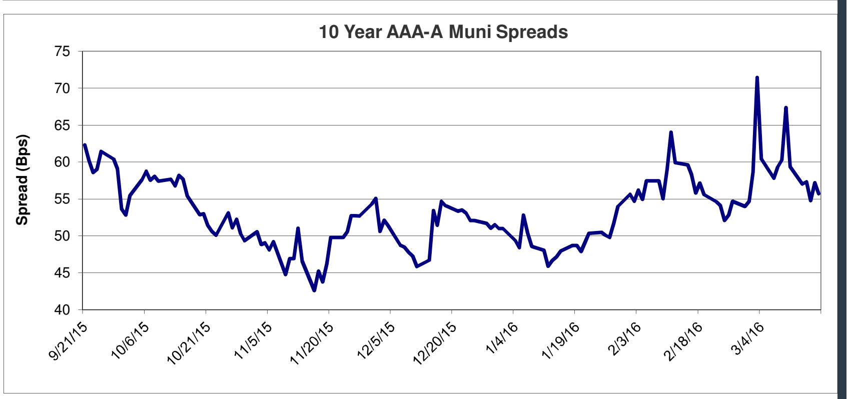
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$4.80	$5.10
Competitive	$0.80	$1.50
TOTAL	**$5.60**	**$6.60**
Municipal 30 Day Visible Supply ($ Bln)	**$8.93**	**$9.61**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.39**	**$13.51**
Bond Buyer 20 Municipal G.O. Index	**3.40%**	**3.42%**

Select Economic Releases

Date	Event	Period	Survey	Prior
3/15	Retail Sales Advance MoM	Feb	-0.20%	0.20%
3/15	PPI Final Demand MoM	Feb	-0.20%	0.10%
3/15	Empire Manufacturing	Mar	-10.5	-16.64
3/16	FOMC Rate Decision (Upper Bound)	16-Mar	0.50%	0.50%
3/16	CPI MoM	Feb	-0.20%	0.00%
3/16	MBA Mortgage Applications	11-Mar	--	0.20%
3/16	Housing Starts	Feb	1150k	1099k
3/16	Industrial Production MoM	Feb	-0.30%	0.90%
3/17	Initial Jobless Claims	12-Mar	268k	259k
3/17	Leading Index	Feb	0.20%	-0.20%
3/17	Philadelphia Fed Business Outlook	Mar	-1.5	-2.8







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.