Weekly Trading Desk Update

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Trading Desk Commentary

There was a little something for everyone this past week on the data front. On Monday we got a look at Personal Income and Personal Spending, both up 0.2% and 0.1% respectively. Core PCE rose 0.1% during February, pushing the year-over-year number up to 1.7%. These releases, along with a strong ISM Manufacturing (57.7) print point to decent, albeit slow, growth in inflation and the economy. These positive numbers set the stage for Friday's Nonfarm payroll report, which came in above expectations at 215k vs. a consensus of 205k. The unemployment rate ticked up to 5.0% from 4.9%, which some economists suggest can be explained by more people entering the workforce who have yet to find employment – which is a good problem to have assuming there are higher-paying jobs to be had. Broadly speaking, the employment data was positive, and most of the economic releases throughout the week can be construed as positive. So why did rates rally across the curve this week? For one, the oil trade appears to be back on. The price of crude fell approximately 7% on the week. The Saudi's, who several weeks ago publicly spoke of a freeze on oil production, which helped the price of oil increase to $40/barrel from $26/barrel, said this week that they will not agree to a freeze if any other nation increased production. Iran has publicly said that it will absolutely increase production after sanctions were lifted against the country earlier this year, so it appears that the potential freeze in production will be dismissed before serious talks were set to take place later this month. Second, on Tuesday, Yellen gave prepared remarks to the Economic Club of New York. In her remarks, she reinforced the dovish tone in her press conference after the March Fed meeting, stating the Fed's best policy going forward should be "greater gradualism" – gotta love Fed speak. Regarding the recent uptick in inflation, Yellen cited continued uncertainty in the global growth, oil price declines, and the strengthening dollar, all of which could subdue inflation and growth. She has essentially wiped out the possibility of a rate hike in April, and markets agree. Current Fed fund futures show that there is a greater probability of an interest rate cut (2%) than a hike (0%) at the next meeting. The first meeting that has over a 50% chance of a rate hike is now November. So here we are again, digesting positive but not positive enough numbers, accepting a continued global economic slowdown, and further cutting our expectations of future interest rate hikes here at home. We've written about this story before.

In the municipal space, a relatively light week of issuance ($6.7 billion) was met with strong demand. Lipper reported another week of muni fund inflows, pushing the current streak of weekly inflows to 26, the longest streak since 2010. The inflows, coupled with a stout rally post-Yellen comments produced oversubscription to the majority of transactions this week; many were put away after bumps anywhere from 2-7 basis points across the curve. A large loan for Anne Arundel County in the low-supply State of Maryland saw several large accounts submitting strip orders for upwards of $50 to $60 million in par, representing approximately 40% of the transaction. These large strip orders highlight the demand for paper in general but especially in states with historical low issuance. Yields decreased across the curve led by the belly. The 10-year MMD rate decreased 12 basis points on the week but failed to outperform its treasury counterpart, which rallied 14 basis points on the week, as of this writing. Tax season typically brings fund flows lower, if not negative, so we will see over the next few weeks if demand remains elevated and the rally holds. Next week's calendar is also relatively light as we emerge from Easter and the spring break season. Any decrease in demand should be partially offset by the light issuance. We'll keep you posted, have a great weekend.

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

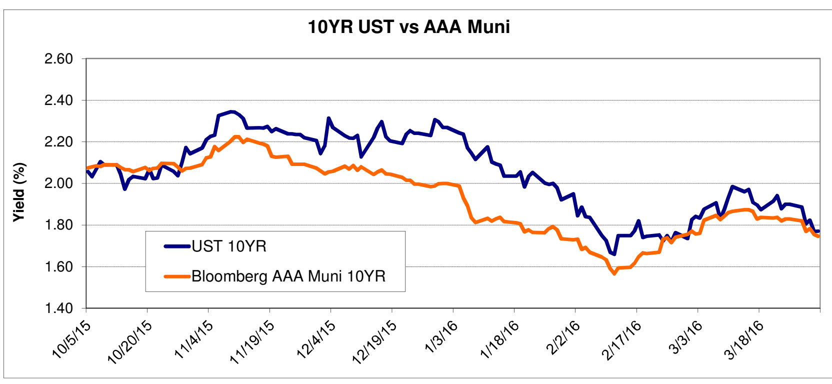
Market Overview

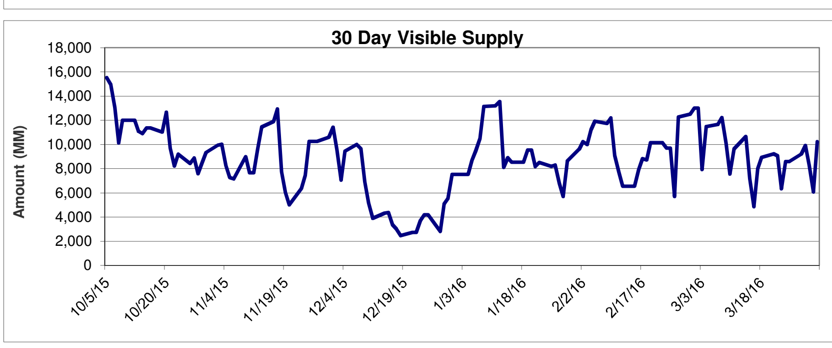
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.69	0.02	0.67	96%
5 Year	1.07	-0.05	1.12	88%
10 Year	1.70	-0.12	1.82	96%
30 Year	2.68	-0.08	2.76	103%
UST Rates				
2 Year	0.72	-0.15	0.87	
5 Year	1.21	-0.17	1.38	
10 Year	1.77	-0.13	1.90	
30 Year	2.60	-0.07	2.67	

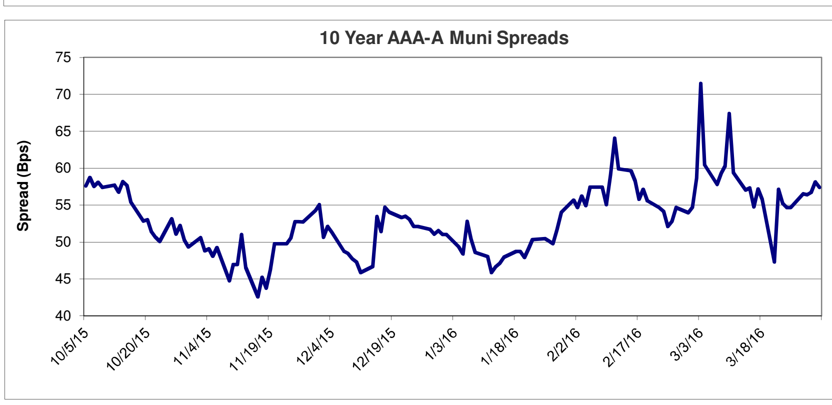
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$6.18	$4.27
Competitive	$1.05	$1.65
TOTAL	**$7.23**	**$5.92**
Municipal 30 Day Visible Supply ($ Bln)	**$10.23**	**$8.58**
Bloomberg Muni PICK Offerings ($ Bln)	**$16.73**	**$13.69**
Bond Buyer 20 Municipal G.O. Index	**3.38%**	**3.40%**

Select Economic Releases

Date	Event	Period	Survey	Prior
4/4	Durable Goods Orders	Feb F	-2.80%	-2.80%
4/4	Factory Orders	Feb	-1.70%	1.60%
4/4	Durables Ex Transportation	Feb F	-1.00%	-1.00%
4/5	Trade Balance	Feb	-$46.2b	-$45.7b
4/5	ISM Non-Manf. Composite	Mar	54.2	53.4
4/5	Markit US Services PMI	Mar F	51.2	51.0
4/5	Markit US Composite PMI	Mar F	--	51.1
4/6	MBA Mortgage Applications	1-Apr	--	-1.00%
4/7	Initial Jobless Claims	2-Apr	270k	276k
4/7	Continuing Claims	26-Mar	2170k	2173k
4/8	Wholesale Inventories MoM	Feb	-0.20%	0.30%







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.