

Trading Desk Commentary

The Treasury market had quite the ride this week, and it was not all a result of the much anticipated Fed meeting on Wednesday. Treasuries began a rather aggressive rally Monday and Tuesday on news that recent polling suggested that a Brexit was now the favored path of UK citizens. The yield on the 10-yr German Bund dropped into negative territory for the first time ever on Tuesday as the risk-off trade gained traction globally. It is estimated now that over \$10 trillion in sovereign debt is trading at negative yields. We are rooted in a slow growth environment, globally. With yields on many nations' bonds dropping into negative territory or hovering around zero, it's no wonder why so much global money is pouring into US Treasuries. At this point safety is paramount, followed by liquidity and yield. No matter what you think about the current shape of the US economy, it's hard to argue against the fact that parking cash in U.S. Treasuries is one of the safer options on the table – and you still get paid to do it! On Wednesday, the Fed held benchmark rates steady (as expected) but the rally rolled into Thursday's trading session as markets digested the dovish minutes and dovish remarks in Yellen's press conference. The revised dot plots echoed the dovish tone of Yellen's press conference: the Fed lowered its median outlook for the Fed Funds rate by 25 basis points for year-end 2017 and by 50 basis points for year-end 2018. Interestingly enough, they did not reduce their median outlook for year-end 2016. We say interestingly because, again, looking at data releases here at home (think 38k Nonfarm report two weeks ago) and hearing Yellen admit that the current low rate environment may be caused by "factors that are not going to be rapidly disappearing, but are part of the new normal," we find it odd that the Fed did not lower their median forecast again (they lowered it in March) for 2016. Markets largely disagree with the Fed (surprise!) as the probability of "a single" rate hike in 2016, according to Fed Fund futures, is highest in December at a paltry 38% chance. Those that may be thinking about selling into the strength may want to consider the Brexit vote right around the corner. Should the Brits decide to exit the EU and we get a string of disappointing data here at home, 1.51% (intraday yield on Thursday) on 10's very well could look cheap. Speaking of Brexit, Treasuries gave back some gains during Friday's session as markets seemed to take a breather from the hectic week. Trading around the Brexit vote calmed as polling and campaigning on both sides was halted after Jo Cox, a Member of Parliament was murdered in broad daylight. She played a visible role campaigning for remaining in the EU. The issue will surely gain momentum Monday, and we expect heightened volatility leading up to the official vote next Thursday.

Municipals largely outperformed Treasuries on the week. After piggybacking on the rally in Treasuries early in the week, muni's continued to strengthen during a week with thin supply and robust inflows. Yields on benchmark AAA MMD index decreased as much as 8 to 11 basis points, led by the 15-yr part of the curve. Transactions were put away with ease, evidenced by several high grade competitive loans pricing as much as 5 to 7 basis points through the scale. Munis have benefitted from the global risk-off trade and robust inflows from foreign investors. Foreign investment into the US municipal market has been robust, driven by negative yields across the globe as mentioned above. Recent data from Q1 2016 suggests that foreign investors have added close to \$7 billion of US municipals over the past year and \$2 billion alone over the last quarter. Visible supply remains elevated at over \$13 billion, and next week the weekly supply is slightly lower at around \$8 billion. Nothing on the immediate horizon suggests munis will perform poorly. Even with yields and ratios at historic lows we still feel like the recent insatiable demand will keep munis from selling off abruptly. We should have a much clearer picture post-Brexit towards the end of the week.

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	0.64	-0.04	0.68	93%
5 Year	0.94	-0.06	1.00	84%
10 Year	1.43	-0.08	1.51	89%
30 Year	2.14	-0.08	2.22	88%

UST Rates			
2 Year	0.69	-0.04	0.73
5 Year	1.11	-0.05	1.17
10 Year	1.61	-0.03	1.64
30 Year	2.42	-0.03	2.45

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$7.80	\$3.66
Competitive	\$1.76	\$1.91
TOTAL	\$9.56	\$5.57

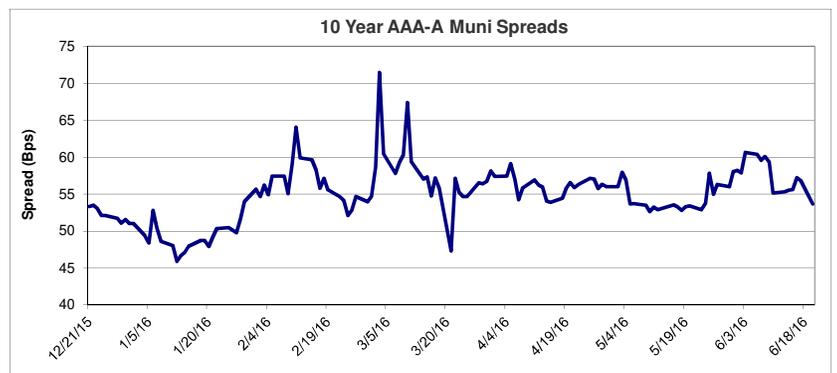
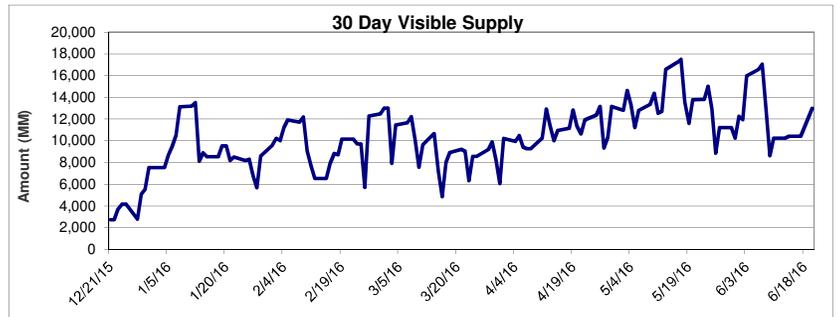
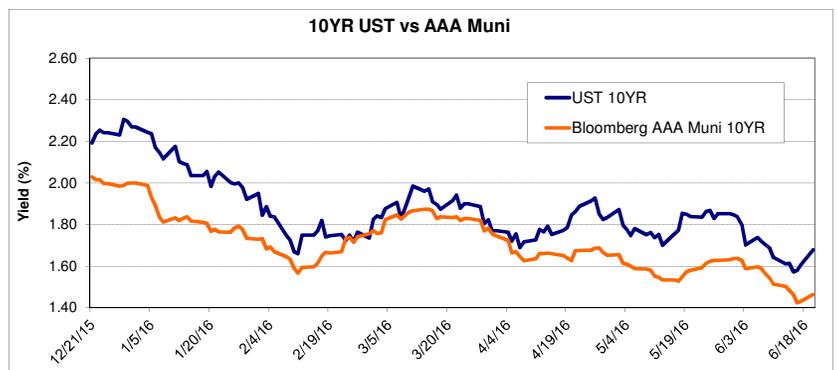
Municipal 30 Day Visible Supply (\$ Bln)	\$10.42	\$10.23
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Bloomberg Muni PICK Offerings (\$ Bln)	\$15.44	\$14.44
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Bond Buyer 20 Municipal G.O. Index	3.18%	3.18%
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Select Economic Releases

Date	Event	Period	Survey	Prior
6/22	MBA Mortgage Applications	17-Jun	--	-2.40%
6/22	Existing Home Sales	May	5.55m	5.45m
6/22	FHFA House Price Index MoM	Apr	0.60%	0.70%
6/23	Initial Jobless Claims	18-Jun	270k	277k
6/23	New Home Sales	May	560k	619k
6/23	Markit US Manufacturing PMI	Jun P	51	50.7
6/23	Leading Index	May	0.10%	0.60%
6/23	Continuing Claims	11-Jun	2150k	2157k
6/24	U. of Mich. Sentiment	Jun F	94.1	94.3
6/24	Durable Goods Orders	May P	-0.50%	3.40%
6/24	Durables Ex Transportation	May P	0.10%	0.50%



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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