

## Trading Desk Commentary

Another week removed from Brexit and investors appear to have adopted an out of sight, out of mind mentality, turning their attention away from the UK and focusing on positive developments here at home. Treasuries pulled back again on Friday, and yields crept higher following better-than-expected retail sales and industrial production numbers. Stronger than forecasted bank earnings thus far and expectations of further stimulus out of England and Japan are contributing to the risk-off trade, reversing the flight to quality trade following Brexit. The 10-yr Treasury touched 1.60% in intraday trading Friday up 25 basis points from just 5 days ago when it settled in at 1.35%. Meanwhile stocks are in the midst of a euphoric rally, both the Dow and S&P extended all-time highs last week. We believe the recent rally in bonds was somewhat overdone and that the sell-off last week is partly due to a mild correction. Further, we still do not believe a broader shift toward higher yields in the near-term will transpire due to global headwinds we have touched on in this space for many months. With that said, markets are turning their attention back to a potential rate hike. Fed Fund futures, which just two weeks ago was pricing in a 0% chance of a hike in July and a 2% chance of a hike in September, now is putting the probability of a hike at those two meetings at 8% and 22%, respectively. These probabilities can be volatile and will ebb and flow with market sentiment. The recent increase in the probability of future hikes coming this year should not cause much angst. Brexit has not come and gone, China's and Japan's economic woes have not been cured, and the potential impact of Italy's banking crises seems to be getting worse by the week. The global headwinds will persist; let's wait and see if we can string together a couple of months of positive economic data here at home before declaring rates have bottomed out.

Municipals significantly outpaced Treasuries across the curve this week with the most outperformance coming in the 5 year part of the curve. The weekly supply was again easily placed as the muni market received another round of fund inflows, pushing total consecutive weekly inflows to 40. However, results of sales were mixed. Several more-common names (NYC TFA) that came to market last week were placed only after cuts were made to their scales while other less-common names such as the Massachusetts Port Authority (Logan Airport) realized bumps to its preliminary scale, even after the AAA MMD Index was getting cut. We are settling in to what is usually a slow summer period for muni's, and absent a robust surge in supply and/or a reversal of fund inflows, it's hard to imagine any drastic changes to the muni market, absent Treasury market volatility. Ratios still sit at historically low levels, but demand for munis remains robust.

## 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	0.59	0.00	0.59	88%
5 Year	0.88	0.02	0.86	80%
10 Year	1.45	0.12	1.33	93%
30 Year	2.10	0.14	1.96	93%

UST Rates			
2 Year	0.67	0.06	0.61
5 Year	1.10	0.16	0.95
10 Year	1.55	0.19	1.36
30 Year	2.27	0.17	2.10

Current Wk		Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$1.59	\$6.37
Competitive	\$4.73	\$2.09
<b>TOTAL</b>	<b>\$6.32</b>	<b>\$8.46</b>

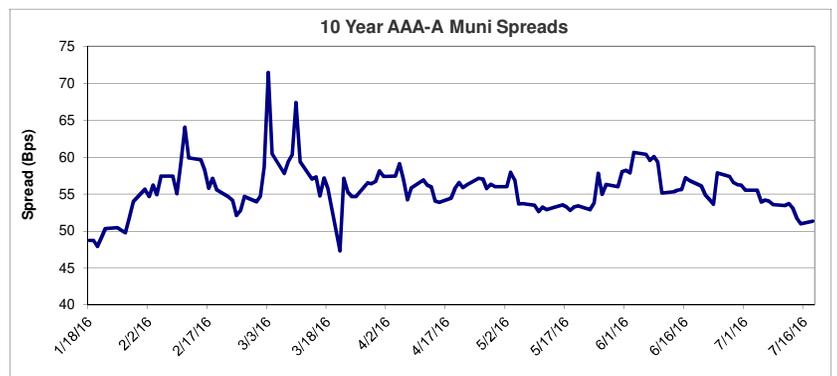
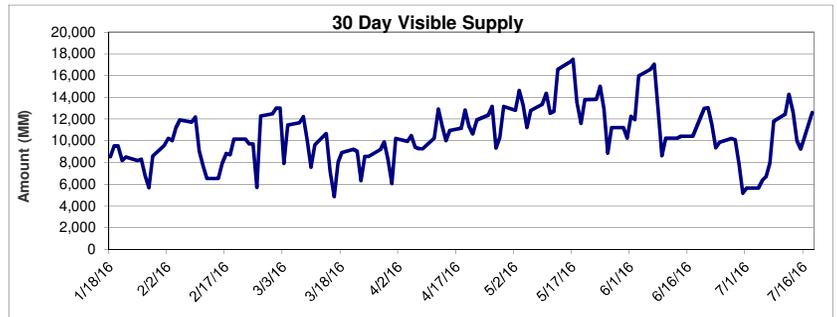
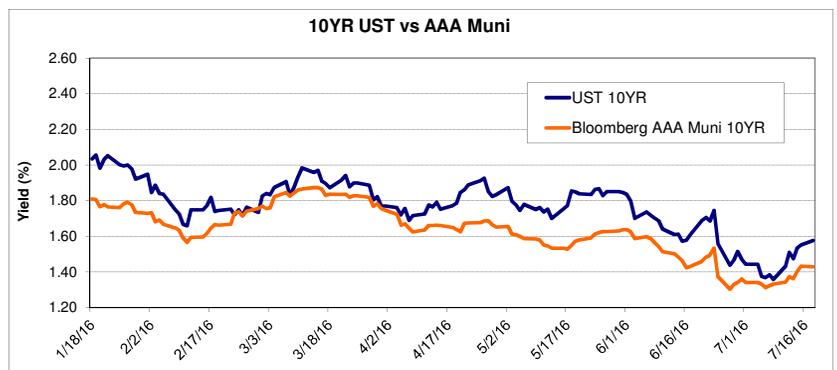
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$9.25</b>	<b>\$11.77</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$14.81</b>	<b>\$14.85</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>2.80%</b>	<b>2.80%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
7/18	Net Long-term TIC Flows	May	--	-\$79.6b
7/19	Housing Starts	Jun	1165k	1164k
7/20	MBA Mortgage Applications	15-Jul	--	7.20%
7/21	Initial Jobless Claims	16-Jul	265k	254k
7/21	Existing Home Sales	Jun	5.48m	5.53m
7/21	Leading Index	Jun	0.20%	-0.20%
7/21	Philadelphia Fed Business Outlook	Jul	4.5	4.7
7/21	FHFA House Price Index MoM	May	0.40%	0.20%
7/21	Continuing Claims	9-Jul	2140k	2149k
7/21	Bloomberg Consumer Comfort	17-Jul	--	44.7
7/22	Markit US Manufacturing PMI	Jul P	51.5	51.3



**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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