

Weekly Trading Desk Update

WEEK OF JUNE 12TH - 16TH

Trading Desk Commentary

MACRO:

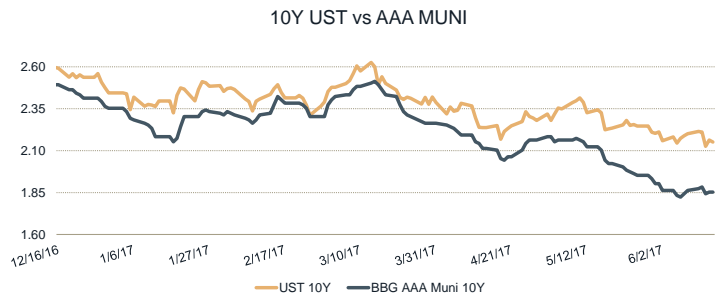
- US Treasury rates resumed their trend lower on the week, despite another 25bps increase from the Federal Reserve, as Q2 data continued to fall short of market expectations.
- Wednesday's release of May retail sales saw the biggest decline in sixteen months as the gauge of consumer demand was -0.3% vs. a 0.0% survey. Inflation as measured by CPI also disappointed the market with core inflation rising just 0.1% on the month and declining to 1.7% annualized, well below the Fed's 2% target.
- The Federal Reserve raised rates as expected for the second time of '17 and continued to forecast a third hike later this year. The official statement and Chair Yellen's press conference remarks appeared modestly more hawkish as it related to the expected transitory nature of recently weaker economic growth and inflation data. Fed funds futures now indicate only a 22% chance of any further hikes this year.

MUNI MARKET:

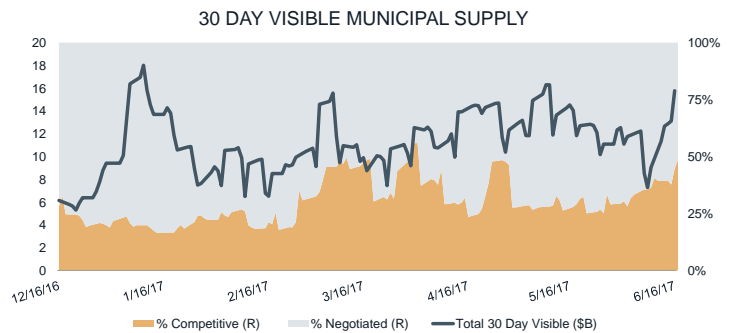
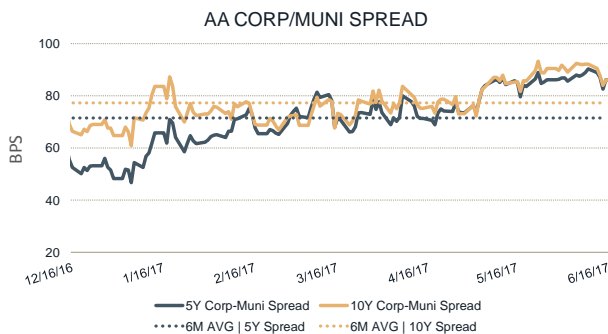
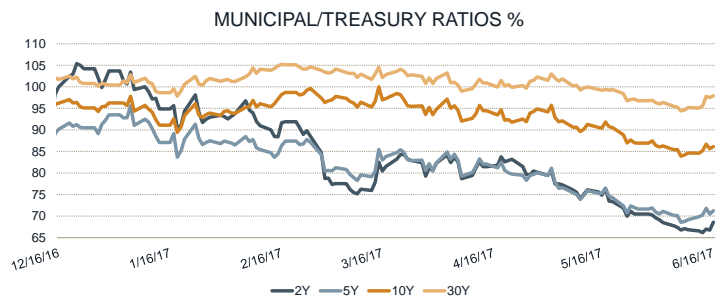
- Muni's underperformed again last week, failing to keep up with the Treasury rally following softer than expected inflation and spending numbers. Ratios widened because of the underperformance, and it will be interesting to see whether this brief widening can hold or whether investors put money to work now expecting ratios to revert to their recent tightening trend.
- Supply returns to the market this week as over \$12 billion is expected to price, however the supply is dominated by a few large issues. Goldman Sachs will try once again to price a \$1 billion non-rated transaction to fund a mega mall in the Meadowlands, while the state of Georgia will issue north of \$1 billion to fund various capital improvements and refund existing debt.
- Illinois general obligation bonds are already trading as if S&P will in fact cut the state's GO rating to junk, which the rating agency said it would do around July 1 if Governor Bruce Rauner is not able to pass a balanced budget. The state has not balanced its budget in over two years and is currently rated Baa3/BBB-.

MARKET OVERVIEW

		6/9/17	6/16/17	Δ bps	1M Trend
Muni	2Y	0.89	0.90	1	
	5Y	1.22	1.24	2	
	10Y	1.86	1.85	-1	
UST	30Y	2.72	2.72	0	
	2Y	1.33	1.32	-2	
	5Y	1.77	1.74	-2	
	10Y	2.20	2.15	-5	
	30Y	2.86	2.78	-8	



		5/18/17	6/16/17	1M Trend
MUNI/UST Ratios	2Y	73%	69%	
	5Y	75%	71%	
	10Y	91%	86%	
	30Y	99%	98%	



EXPLANATION

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. Competitive and Negotiated are broken out as a percentage of total supply.

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.

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: 30 day visible figures are obtained through Bloomberg, 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.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.