

Weekly Trading Desk Update

WEEK OF JULY 31ST - AUGUST 4TH

Trading Desk Commentary

Macro:

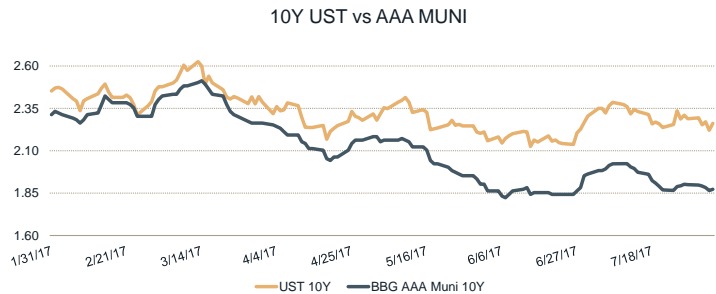
- US rate markets seesawed on the week beginning with Tuesday's significantly weaker auto report. This sparked concerns among some bond investors that weaker sales and growth in the broad market may lie ahead. The yield on the 10YR UST touched a 2.21% by late week after news of a grand jury being called on the Russian investigation added fuel to the rally, but a stronger than anticipated Jobs Friday helped calm nerves and saw rates regain some traction to close at 2.26% (only 3bps lower on the week).
- Friday's job data again showed solid additions to the workforce as Nonfarm Payrolls were reported at +209K for July vs. +180K survey. Unemployment also moved lower to 4.3% as slack continues to be squeezed out of the labor market, and Average Hourly Earnings saw a bit of a rebound (up .3% on the month) from softness seen through much of '17. While not blockbuster wage growth, Friday's report may help calm some near-term concerns at the Fed over moving forward with further policy changes (be they balance sheet or rate setting) later this year.
- The week ahead will have a focus on inflation as PPI and CPI will be released on Thursday and Friday respectively. Core CPI is expected to print slightly higher on the month (up 0.2%) with annualized YoY unchanged at 1.7%. For reference Core CPI averaged approximately 2.2% for 2016.

Muni:

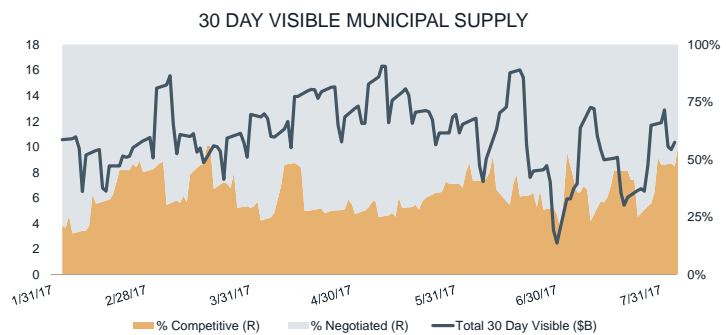
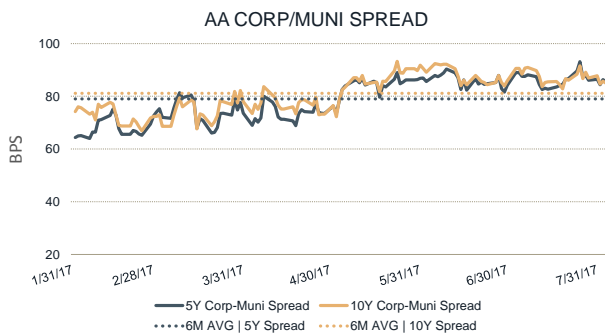
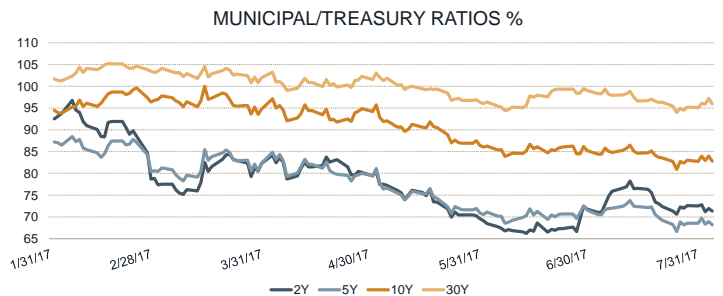
- The municipal market once again outperformed Treasuries on the week as fund flows remained positive with over \$400 million coming into the market. Light primary supply was well received, and until Treasury yields and/or primary supply spikes, we expect the muni market will remain constructive.
- This week we will see supply increase modestly but remain generally in line with the YTD weekly average of approximately \$7 billion. The Bond Buyer 30 Day Visible supply (\$10.3 billion) remains below its YTD daily average of \$11 billion.
- On the credit front, South Carolina's Santee Cooper decided to abandon its two nuclear projects within the state. The decision comes after numerous delays and cost overruns forced lead contractor Westinghouse into bankruptcy. S&P downgraded the credit on the news while Moody's viewed the decision as credit positive since it caps expenditures at current levels and eliminates further project uncertainty. Further, bond documents show that Santee has covenanted to maintain rates and charges to make debt service payments on the bonds.

MARKET OVERVIEW

	7/28/17	8/4/17	Δ bps	1M Trend
Muni	2Y	0.98	0.96	-1
	5Y	1.26	1.24	-2
	10Y	1.90	1.87	-3
	30Y	2.76	2.73	-3
UST	2Y	1.35	1.35	0
	5Y	1.83	1.82	-2
	10Y	2.29	2.26	-3
	30Y	2.90	2.84	-5



	7/6/17	8/4/17	1M Trend
MUNI/UST Ratios	2Y	75%	71%
	5Y	72%	68%
	10Y	85%	83%
	30Y	98%	96%



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.

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