

## Trading Desk Commentary

The 10-year AAA Muni yield, according to Municipal Market Data, has sat at 1.86% since June 15th, a full two weeks. That must be a mistake, right? It seems impossible given the onslaught of macroeconomic developments and rapidly-evolving Municipal supply/demand metrics over the period – yet here we are. Two weeks feels like a lifetime when threats of a Euro break-up are heating up, US economic data portrays a spotty recovery at best, and new Muni debt is being brought to market at the fastest pace since 2010. So how did high-grade Munis manage to close out the second quarter on such stable ground? It turns out Munis embodied Michael Caine's famous interview quote about his acting technique: "Calm on the surface, but always paddling like the dickens underneath."

The vast majority of recent Muni issuance has been rated in the AA to A range and has offered attractive yields for those trying to reinvest recent maturities at more attractive yield levels. These types of deals have done exceptionally well, but tend to have little bearing on movements in AAA Munis. In fact, there has been very little activity in AAA Munis as of late – such that discerning the true value of high-grades has been difficult. The lesser-rated new deals' successes have fostered a positive sentiment in tax-exempts, but it is hard to predict how a large AAA GO deal would fare in today's market; with such low absolute interest rates perhaps not as well as its yieldier competition. However, dealers have distributed a healthy amount of new Muni debt without significant hiccups. The asset class has put a lot of money to work in the last few weeks and has done an admirable job of preserving performance despite elevated supply levels. Next week will be chopped up by the Independence Day holiday and will limit potential new supply. We believe short-term Muni fundamentals appear favorable, at least compared to Treasury alternatives. We would be remiss to not briefly touch on some of this week's big headlines. Euro leaders signaled their willingness to assist Spain and Italy through their debt struggles by providing some short-term relief in the form of direct bank recapitalization – a welcome development for global markets. The US Supreme Court upheld the constitutionality of Obamacare legislation, clearing a major obstacle for implementing the massive healthcare overhaul. The decision raises the stakes for November's presidential election and will certainly be the focus of contentious debate between the candidates. The new legislation could provide a boost to patient volume in US hospitals and potentially serve as a positive credit development for the healthcare sectors, but we have much further to go before any such effects would reach hospital financial statements. In the meantime, we continue to view hospitals favorably and as a tool for adding incremental yield in to our clients' portfolios. Hope everyone enjoys a happy 4th of July holiday.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.32	0.00	0.32	107%
5 Year	0.79	0.00	0.79	110%
10 Year	1.86	0.00	1.86	113%
30 Year	3.16	0.00	3.16	115%

### UST Rates

2 Year	0.30	0.00	0.30
5 Year	0.72	-0.03	0.75
10 Year	1.65	-0.02	1.67
30 Year	2.75	0.00	2.75

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	n/a	\$6.28
Competitive	n/a	\$1.33
<b>TOTAL</b>	<b>\$0.06</b>	<b>\$7.61</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$3.30</b>	<b>\$10.09</b>
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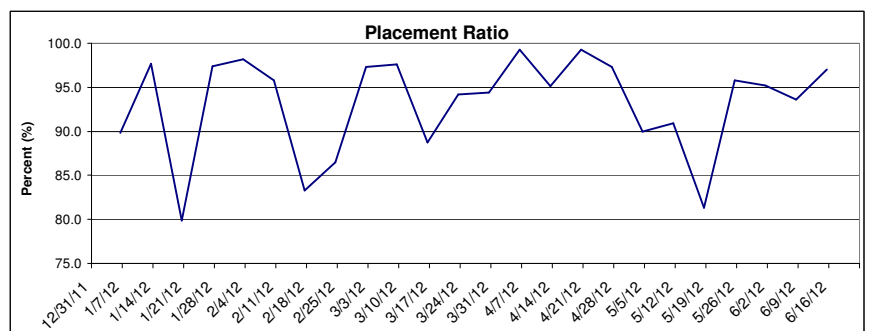
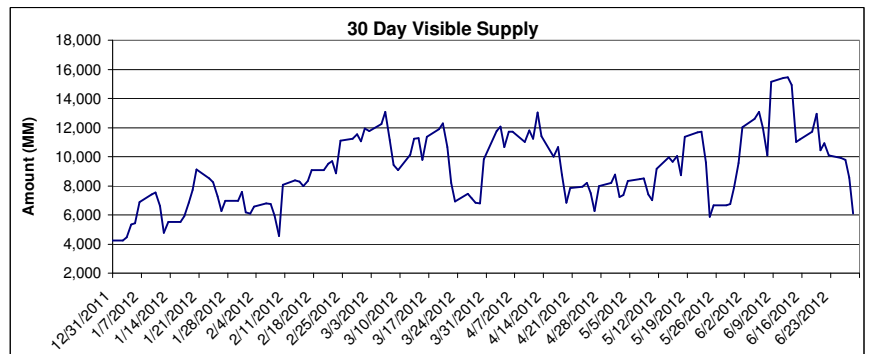
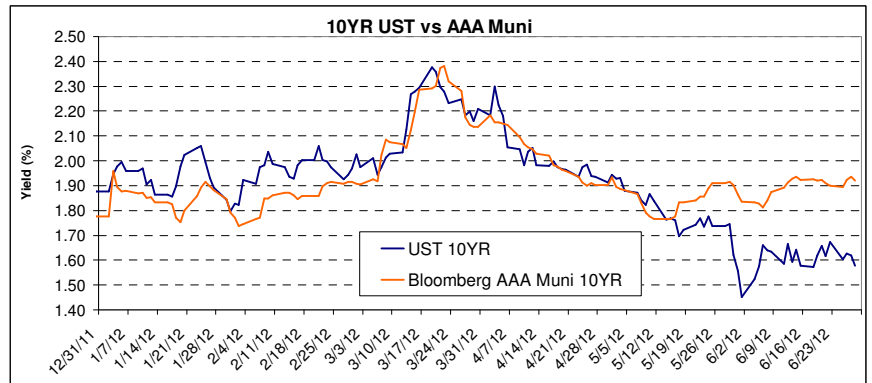
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$11.02</b>	<b>\$13.35</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>n/a</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.95%</b>	<b>3.95%</b>
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### Select Economic Releases

Date	Event	Period	Actual	Prior
6/25	New Home Sales	May	369K	343K
6/26	Consumer Confidence	Jun	62.0	64.9
6/27	MBA Mortgage Applications	22-Jun	-7.1%	-0.8%
6/27	Durable Goods Orders	May	1.10%	0.20%
6/28	GDP QoQ (Annualized)	1Q	1.9%	1.9%
6/28	Personal Consumption	1Q	2.50%	2.70%
6/28	Initial Jobless Claims	23-Jun	386K	387K
6/28	Continuing Claims	16-Jun	3296K	3299K
6/29	Personal Income	May	0.2 %	0.2 %
6/29	Personal Spending	May	0.0%	0.3%
6/29	U. of Michigan Confidence	Jun	73.2	74.1



#### **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.

**Placement Ratio** - The amount of bonds sold by underwriting syndicates each week as a percentage of the amount issued that week by issuers selling \$1,000,000 par value or more of securities. The ratio published by The Bond Buyer, helps gauge the demand for municipal bonds in the marketplace.

**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, and the placement ratio 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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