

## Trading Desk Commentary

A sleepy week in Muniland forced tax-exempt participants to look towards the US Treasury market for leadership, a seasonal habit of the Muni market as the summer months approach. Over the past few months, Muni bidders have had their hands full with a consistently robust primary calendar. Dealers priced new issuance at a \$7-9bn clip for four straight weeks and Bond Buyer 30-day visible supply has routinely hovered in the \$10-\$13bn range – not an astronomical number but several straight weeks of such high expected new volume tends to test the market's appetite. As we have written here, we have been pleasantly surprised with buyers' ability to absorb the healthy supply totals in spite of consecutive weekly outflows in Muni bond funds, which tend to serve as a decent barometer of Muni sentiment. However, we feel that the Muni bond fund flow data and the activity in the cash Muni market have painted a rather disjointed picture. New Muni supply successfully found homes without much struggle over the period, even as US equity market indices sprung to all-time highs and the asset class lost roughly \$500mln in the month of April. Significant demand for traditional tax-exempt bonds held steady through all of this. In fact, Municipal Market Data's AAA 10-year Muni benchmark yield has fallen 16 basis points (0.16%) since the end of March as of this writing. Over the same horizon, the Dow rallied more than 500 points while Muni supply approached 12-month highs and Tax Day created selling pressure as investors tried to meet their obligations in mid-April. That is pretty remarkable resilience on behalf of Municipals.

Now, one could argue that the Muni outlook appears meaningfully more constructive. Weekly reporting Muni bond funds reported their first inflows (+22mln as reported by Lipper) since March 1st. New supply on the horizon has fallen off a cliff as visible supply is approximately half of what it was in the middle of last month. Next week, dealers will look to price less than \$6bn in new tax-exempt issuance for the second straight week. Dealers sold the limited supply over the past five days without any hiccups, especially the lesser-rated opportunities that offered investors a yield boost. For example, the \$145mln (A2/A-) Maryland Health & Higher Education Medstar Health loan was very well-received in spite of its quirky structure. Maturities were only available from 2025-2033 and 2038 and offered up almost 100 basis points (1.00%) more yield than a AAA GO bond. Very few balances were left over after the deal's order period and provided only the most recent example of buyers remaining more than willing to take on the additional credit risk of a single-A hospital, even in the longest maturity range, if it means augmenting their income. Next week's supply menu looks equally as enticing to buyers seeking extra income. A variety of airport, power and healthcare names from around the country are scheduled for distribution and should garner healthy interest and set a supportive tone. Of course, the success in new issues has come at the cost of the secondary market, which continues to languish on the sidelines. Secondary offerings are being overlooked by participants in favor of the new issuance. Next week's attractive primary line-up should extend the trend; however, we continue to find some opportunities in small secondary pieces. Locating these opportunities remains labor intensive, but there is value to be had for patient secondary bidders. Admittedly though, value in larger pieces pops up more consistently in the new issue market right now. Starting Monday, we should be active in the week's deals but will keep one eye on the bids wanted lists and dealers looking to lighten up their inventory at cheap prices.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.28	-0.01	0.29	117%
5 Year	0.78	0.05	0.73	96%
10 Year	1.81	0.13	1.68	95%
30 Year	2.93	0.11	2.82	95%
UST Rates				
2 Year	0.24	0.02	0.22	
5 Year	0.81	0.08	0.73	
10 Year	1.90	0.16	1.74	
30 Year	3.10	0.14	2.96	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$4.61	\$2.64
Competitive	\$1.24	\$1.38
<b>TOTAL</b>	<b>\$5.85</b>	<b>\$4.02</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$7.20</b>	<b>\$6.74</b>
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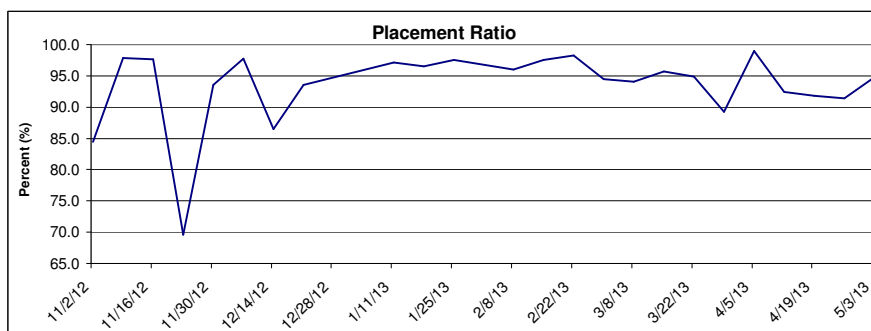
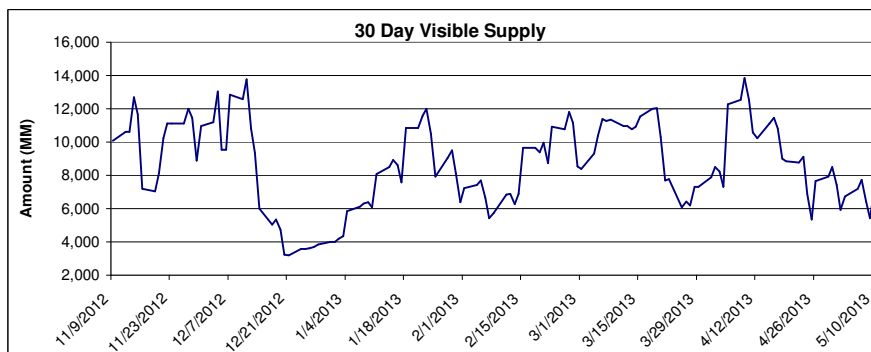
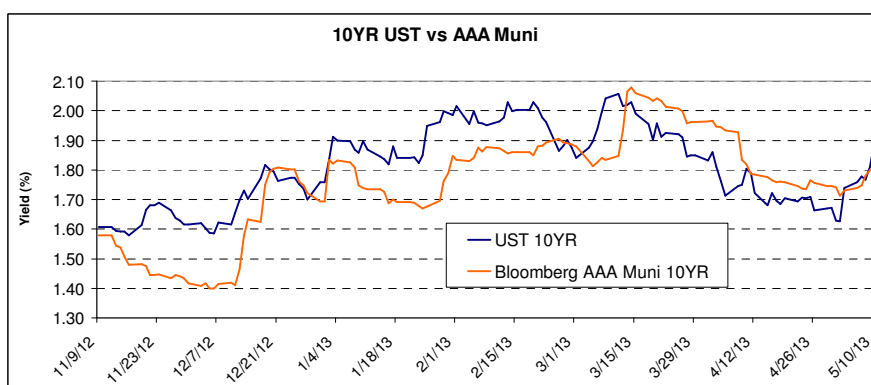
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$15.61</b>	<b>\$16.32</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>94.8%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.67%</b>	<b>3.77%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
5/13	Advance Retail Sales	Apr	-0.3%	-0.4%
5/15	MBA Mortgage Applications	10-May	--	7.0%
5/15	Empire Manufacturing	May	4.00	3.05
5/15	Producer Price Index (MoM)	Apr	-0.60%	-0.60%
5/15	Industrial Production	Apr	-0.2%	0.4%
5/16	Consumer Price Index (MoM)	Apr	-0.30%	-0.20%
5/16	Initial Jobless Claims	11-May	330K	323K
5/16	Continuing Claims	4-May	3003K	3005K
5/16	Housing Starts	Apr	973K	1036K
5/17	U. of Michigan Confidence	May P	78.0	76.4
5/17	Leading Indicators	Apr	0.2%	-0.1%



## Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	.85 YRS to 1.85 YRS	0 YRS to 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	1.30 YRS to 2.30 YRS	0 YRS to 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	4.00 YRS to 5.00 YRS	0 YRS to 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	3.50 YRS to 4.50 YRS	0 YRS to 12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	2.50 YRS to 7.50 YRS		Slight Overweight to Cal. and HY Sector
Core Plus ETF	2.35 YRS to 7.10 YRS		Slight Overweight to Corporates and TIPS
Tactical Opportunity ETF	2.45 YRS to 7.30 YRS		Overweight Munis to Taxables, Yield Bias

**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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