

## Trading Desk Commentary

It would be an understatement to say that fixed income market participants will be happy to call it a week after the volatility seen in the US Treasury market ended with yields significantly higher across the board. Despite a shortened holiday week the market wasted no time in further extrapolating recent Federal Reserve rhetoric around the idea of "tapering" asset purchases potentially sooner than expected. This pushed buyers to the sidelines and culminated in some of the weakest Treasury auctions, as measured by number of bids, seen in several years. At one point on Wednesday the 10 year US Treasury had risen by more the 20 basis points from its close the previous Friday, to a level of 2.22%, a yield not seen since April of last year. Equity markets initially rallied in conjunction with the selloff, with the DOW up over 100 points, but soon put the brakes on as investors started to question whether the lack of accommodation and subsequent higher rates might stall potential recovery. By the end of the week the DOW was essentially flat and directionless.

The Municipal market followed the Treasury market's lead this week as buying was sporadic. A limited supply calendar added to the confusion as there were not enough large deals produced for investors to draw many of their own conclusions about the underlying tone of the market. On the one hand, there appeared to be decent demand and follow through in several new issues, with some deals actually seeing bumps (decrease in yields) from initial indications as buyers were likely enticed by the higher absolute levels available in the market today. On the other hand, secondary trading remained spotty as several high grade blocks traded down and spreads on yieldier positions widened. Municipal fund flows also reversed course as Lipper reported outflows of approximately \$167MM, ending what had been a firming trend of several consecutive weeks of net inflows. Next week's supply calendar does appear to be somewhat more robust at approximately \$4.8Bln, but should still be digestible given the anticipated seasonal June influx of coupon and maturity payments, so long as proceeds are reinvested back in the market. At Caprin, we see this backup in yields as an attractive entry point, and were able to find particular value in some of the new issue deals that afforded willing buyers the opportunity to purchase strong credits at both attractive yield and spread levels.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	97%
5 Year	0.94	0.10	0.84	91%
10 Year	2.09	0.19	1.90	98%
30 Year	3.24	0.16	3.08	99%
UST Rates				
2 Year	0.30	0.05	0.25	
5 Year	1.03	0.14	0.89	
10 Year	2.13	0.13	2.00	
30 Year	3.28	0.11	3.17	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$3.68	\$2.84
Competitive	\$1.12	\$0.74
<b>TOTAL</b>	<b>\$4.80</b>	<b>\$3.58</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$7.93</b>	<b>\$6.17</b>
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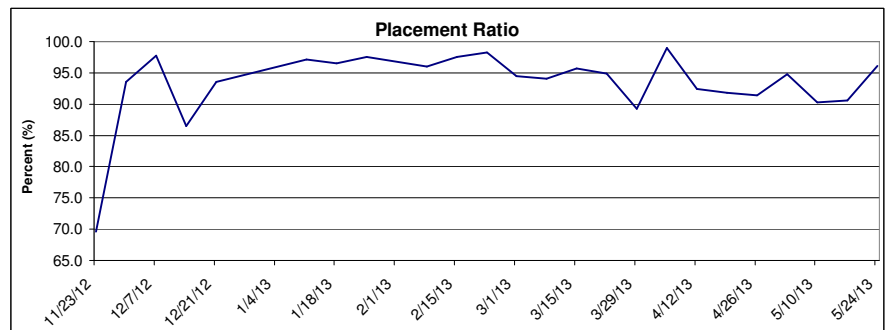
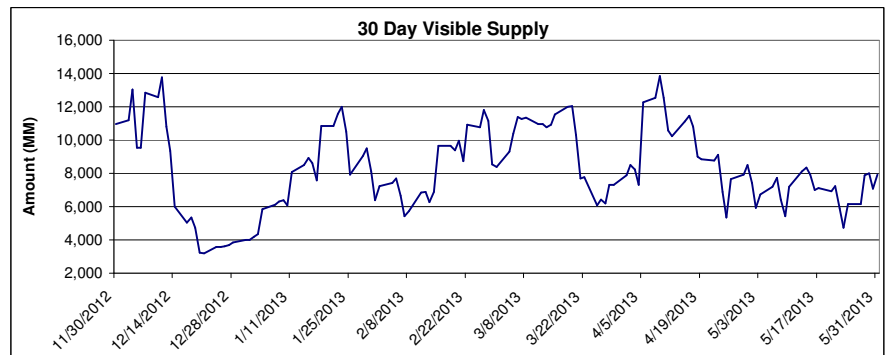
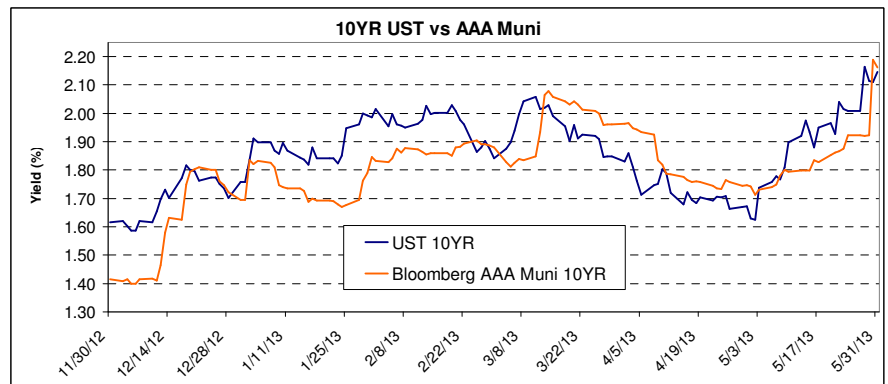
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$18.30</b>	<b>\$14.20</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>96.1%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.84%</b>	<b>3.70%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
6/3	ISM Manufacturing	May	50.7	50.7
6/5	MBA Mortgage Applications	31-May	--	-8.8%
6/5	ADP Employment Change	May	165K	119K
6/5	Factory Orders	Apr	1.5%	-4.0%
6/5	ISM Non-Manf. Composite	May	53.5	53.1
6/5	Fed Reserve Releases Beige Book			
6/6	Initial Jobless Claims	1-Jun	345K	354K
6/6	Continuing Claims	25-May	2974K	2986K
6/7	Change in Nonfarm Payrolls	May	165K	165K
6/7	Unemployment Rate	May	7.5%	7.5%



## 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 BABs
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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