

## Trading Desk Commentary

US Treasuries weakened significantly over the past five trading sessions with the 10-year UST yield moving roughly 25 basis points higher from their closing levels last Friday. As we move further into the month of August and September starts to sneak up, it is not surprising that sensitivity to US economic releases and Fed speculation would spike. This week hosted a string of modestly better-than-expected data that, in the minds of traders, only served to increase the perceived likelihood of Fed tapering in the near future. Even a disappointing University of Michigan Confidence number today could not put the brakes on the debt markets' momentum toward higher yields. Solid retail sales and employment data earlier in the week had already set the frenzy in motion. The prospect of a less accommodative Fed worried equities and resulted in their weakest weekly performance in 2013. Stocks fear the end of the Fed's easy money and their unprecedented suppression of interest rates. This has the asset class performing counter-intuitively to better economic activity in the US. Now the question is: can the Fed afford to announce the official commencement of stimulus reduction with 30-year US Treasuries already backing up 100 basis points since April and now resting at its highest yields in just over two years. The Fed will need to choose its words and course of action in September wisely. It seems likely that substantially higher interest rates from here could easily squander the progress the US economy has made this year. Because the market has spent the past two months preparing itself for Fed tapering, perhaps the reaction to its announcement would actually feel muted at this point. But the stakes are too high to rip the band aid fully off in September. It seems likely that the Fed will continue with its asset purchasing beyond September. But we would not be surprised to see some meaningful changes in their language in regards to their economic outlook and an increased sense of urgency to slow their \$85 billion-a-month purchasing rate.

A significantly lighter Muni supply calendar (and lighter seasonal activity) allowed Munis to outperform their taxable counterparts though the weakness in US Treasuries could not be fully ignored. The 10-year AAA Muni scale (Municipal Market Data) jumped up 16 basis points and now offers 2.88%. Muni bond fund outflows continue to serve as a primary pressure point for the asset class with Lipper reporting another sizable divestment this week totaling over \$1bln. Now that equities are showing some hesitation, it will be interesting to monitor the outflow data in the coming weeks should risk investors' mindsets turn increasingly negative in response to more tapering talk. Thin supply expectations should help Munis continue to outperform US Treasuries and we remain overweight Munis in our Tactical Opportunity ETF strategy. However, the risk of heightened rate volatility as we approach the next Fed meeting continues to drive our decision to remain defensive in our duration profile for the time being in our tactical strategies via Inverse UST ETF exposure. We believe this remains a prudent strategy until a clearer Fed timetable emerges. Until then, we expect a bumpy ride.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.43	0.00	0.43	126%
5 Year	1.43	0.12	1.31	92%
10 Year	2.88	0.16	2.72	102%
30 Year	4.39	0.11	4.28	114%
UST Rates				
2 Year	0.34	0.04	0.30	
5 Year	1.56	0.21	1.35	
10 Year	2.83	0.27	2.56	
30 Year	3.84	0.21	3.63	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$3.40	\$3.87
Competitive	\$0.70	\$0.48
<b>TOTAL</b>	<b>\$4.10</b>	<b>\$4.34</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$6.68</b>	<b>\$7.70</b>
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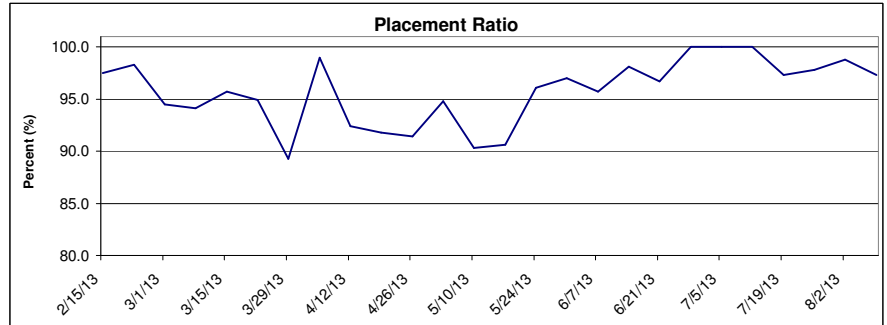
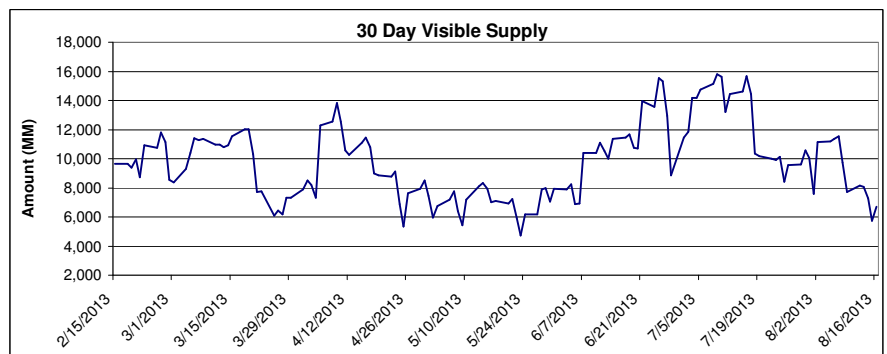
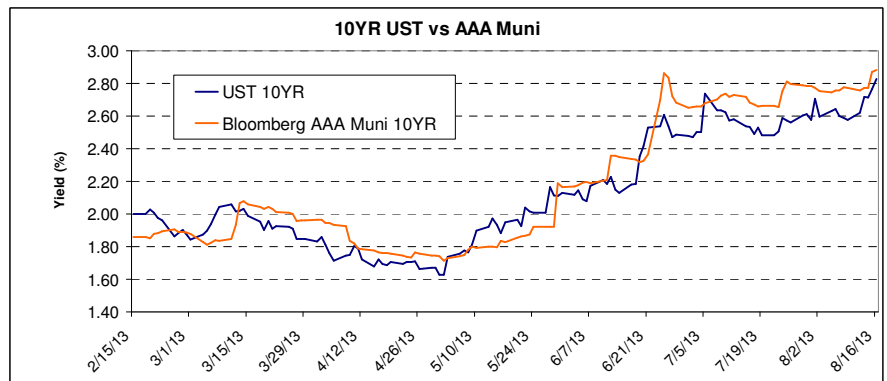
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$18.82</b>	<b>\$13.39</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>97.3%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.80%</b>	<b>4.73%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
8/21	MBA Mortgage Applications	16-Aug	--	-4.7%
8/21	Existing Home Sales MoM	Jul	1.4%	-1.2%
8/21	Fed Minutes Release			
8/22	Initial Jobless Claims	17-Aug	330K	320K
8/22	Continuing Claims	10-Aug	2970K	2969K
8/22	House Price Index MoM	Jun	0.6%	0.7%
8/23	New Home Sales	Jul	487K	497K



## Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min  Max	0 YRS  5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min  Max	0 YRS  5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min  Max	0 YRS  17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Min  Max	0 YRS  12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min  Max		Slight Overweight to CA and NY
Core Plus ETF	Min  Max		Slight Overweight to Corporates and BABs
Tactical Opportunity ETF	Min  Max		Slight Overweight Munis, Underweight Taxables

**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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