

Trading Desk Commentary

CNBC's coverage of the Fed's annual retreat in Jackson Hole, Wyoming on Friday served as a prime example of the mixed signals flowing from Fed officials. Atlanta's Federal Reserve President Dennis Lockhart started the morning (well before sunrise in the Rockies) by expressing his support of tapering sooner rather than later based on the current trajectory of economic activity. No more than an hour later, St. Louis' Fed President James Bullard was in front of cameras claiming the Fed must take its time before acting too drastically and reducing its unprecedented support of US markets. After Bullard's concluding remarks, San Francisco's Fed President John Williams stayed more neutral in his tapering stance, using vaguer terms and timelines when questioned about his policy outlook. Bonds and equity futures stayed fairly benign as the latest rounds of Fed speak effectively all cancelled each other out. However, the 10am New Home Sales data sent a shock through the system. Any question over whether housing activity will be affected by the recent jump in interest rates received a clear "yes." July's New Home Sales wildly missed their mark paired with a significant downward revision in the June data as well, giving validation to concerns that taper talk/higher bond yields could choke off the housing recovery. As one would expect, the bond rally was on in US Treasuries following the data; and again, equities initially responded positively to negative news based on the perception that bad news begets further Fed stimulus. The data probably does not completely erase the chance of a September taper, but such a concerning, negative signal from the housing sector heading into September will likely stick in the minds of Fed officials.

Munis gave up some ground over the week and likely did not see enough activity on Friday to keep pace with the US Treasury rally. The attention-grabber in the tax-exempt space continues to be the volume of assets leaving Muni bond funds. Lipper reported another round of large outflows for this week, with YTD outflows now approaching \$30bln. The forced selling as a result of the persistent divestments remains the primary source of pressure in the Municipal bond space, aside from the more general rate move in US debt markets. Until sentiment improves in the Muni sector and outflows slow, the sector will struggle to stabilize. The volatility in recent weeks has pushed issuers to the sidelines now that borrowing has become significantly more expensive. However, this is keeping the weekly and 30-day calendars in check, which is helping offset some of the selling pressure, especially in the longer region of the Muni curve. Next week's expected Muni supply appears subdued yet again, and the Bond Buyer 30-day visible supply number rests near \$7.4bln, a far cry from the highs of 2013. California leads the way next week with a large A-rated general obligation loan, coinciding with its increasingly positive outlook under the leadership of Gov. Brown. Beyond that, the deal size falls off precipitously, and supply is spread out over several smaller revenue deals. Therefore, Muni supply poses no threat for the foreseeable future. We remain defensive for the time being in our tactical strategies, holding our duration target near 50% of their benchmarks. One economic release alone on a Friday does not alter our defensive positioning. On the contrary, the heightened sensitivity to economic data further justifies remaining cautious. Should data releases start to trend negatively and/or the Fed re-affirms its commitment to supporting the economy via its asset purchasing program, our stance could quickly change. Another wild card on the horizon will be the debt ceiling and budget debates that will restart (yes, again) in early September when Congress return from its summer recess. Political brinkmanship can quickly sour US market moods as has been seen several times under the current administration. There is a lot to digest right now and no shortage of challenges ahead. As always, we will be watching closely.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.43	0.00	0.43	108%
5 Year	1.50	0.07	1.43	90%
10 Year	2.96	0.08	2.88	105%
30 Year	4.46	0.07	4.39	117%
UST Rates				
2 Year	0.40	0.06	0.34	
5 Year	1.66	0.10	1.56	
10 Year	2.82	-0.01	2.83	
30 Year	3.80	-0.04	3.84	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.93	\$3.40
Competitive	\$1.37	\$0.70
TOTAL	\$4.30	\$4.10

Municipal 30 Day Visible Supply (\$ Bln)	\$7.41	\$6.68
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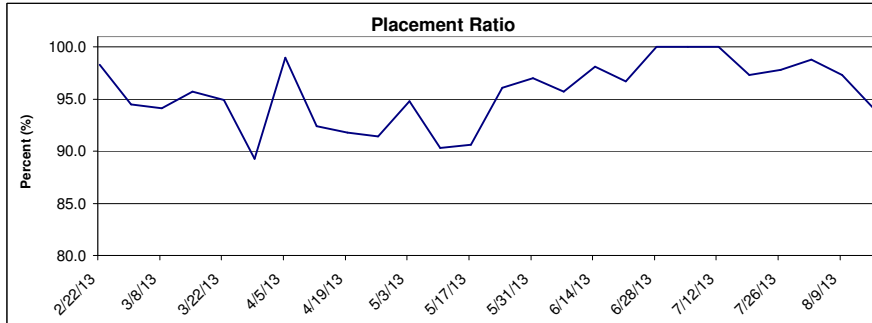
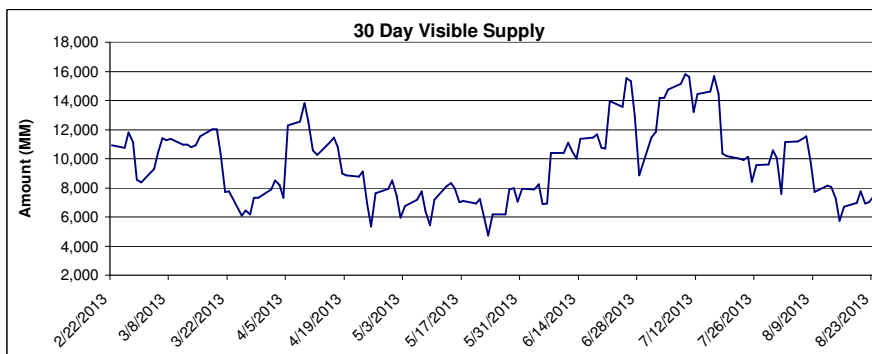
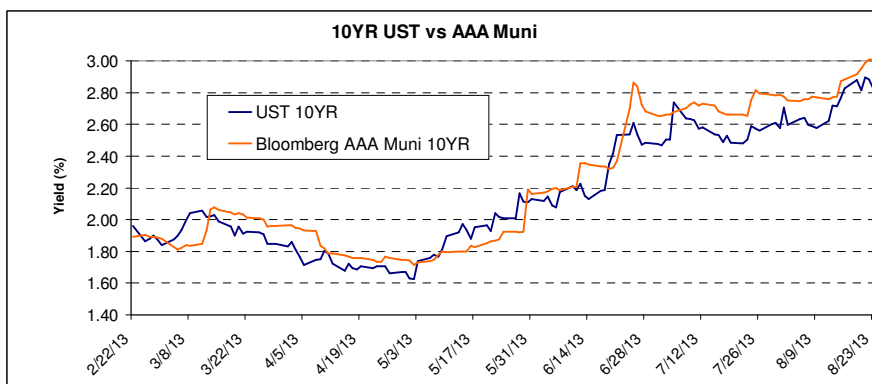
Bloomberg Muni PICK Offerings (\$ Bln)	\$15.58	\$18.82
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Muni Placement Ratio (New Issues)	n/a	94.1%
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Bond Buyer 20 Municipal G.O. Index	4.91%	4.80%
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Select Economic Releases

Date	Event	Period	Survey	Prior
8/26	Durable Goods Orders	Jul	-4.0%	4.2%
8/27	Richmond Fed Manufact. Index	Aug	0.0	-11.0
8/27	Consumer Confidence Index	Aug	79.0	80.3
8/28	MBA Mortgage Applications	23-Aug	--	-4.6%
8/28	Pending Home Sales MoM	Jul	0.10%	-0.40%
8/29	Initial Jobless Claims	24-Aug	330K	336K
8/29	GDP Annualized QoQ	2Q S	2.2%	1.7%
8/30	Personal Income	Jul	0.2%	0.3%
8/30	Personal Spending	Jul	0.3%	0.5%
8/30	Chicago Purchasing Manager	Aug	53.0	52.3
8/30	Univ. of Michigan Confidence	Aug F	80.5	80.0



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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