












Trading Desk Commentary

US Treasury yields marched consistently lower this week with the 10-year trading at 2.65%. That brings 10-year yields back down toward the bottom half of the trading range in which it has lived for the majority of the year. The ongoing Russia-Ukraine conflict remains at the forefront of the fixed income landscape. The sharp sell-off last week based on news of a potential accord in the region has now been all but erased as it becomes increasingly clear that the situation is far from resolved. More Russian military drills are taking place in close proximity to the Ukrainian border. Ukraine has continued its efforts to stop pro-Russian activists and has classified their actions as acts of terror. Reports of a hospital and a school being recently taken over by the pro-Russian militants do not bode well for the conflict to die down in the very near-term. News of the intensifying situation is stoking demand for haven assets. The 30-year US Treasury bond now sits at its highest price level since last June and is now up over 10% year-to-date. The rally in shorter parts of the curve has been significantly less dramatic, particularly in the 2-5 year range where Fed outlook is confounding trading activity in that space. Momentum across the curve is certainly in risk-off mode at present, but again, it remains within the confines of a relatively narrow trading range. We remain comfortable with our neutral duration posture. Offsetting headwinds (Ukraine) and tailwinds (decent earnings releases) are making it difficult for the US debt market to establish a trend in one direction or another. Significant escalation in Russia from here would likely have us revisiting our stance. Any signs of Europe being drawn in to more overt military responses would serve as a warning signal. The US's most likely response for now is stricter sanctions aimed at Moscow, though Putin appears immune to Washington's threat thus far.

Activity within the Municipal space looked mixed and somewhat sluggish this week. The week's largest deal, \$750mln (A3/A-) State of Illinois general obligation loan received a somewhat tempered response. The strength in the long end of the yield curve boosted interest (and prices) in the longest dated debt but the intermediate portion of the curve actually saw some modest price cuts. This has become a rarity in today's supply-starved market. Of course, Illinois is a bit of a different animal than most issuers. Fighting massive unfunded pension obligations and a negative outlook, Illinois has seen enough credit-driven volatility to give many investors pause. On the other hand, stubbornly low yields have been forcing many buyers down the credit curve to augment portfolio yield. The Illinois deal was by no means a failure, just not the "food fight" many anticipated. Lipper's report that Muni bond funds saw a convincing \$200mln+ of inflows this week speaks to the underlying strength of current Muni demand. Performance in the Muni market's bellwether Intermediate ETF, MUB (iShares National AMT-Free Muni Bond), speaks to the persistent demand. MUB is trading at its highest level since last June and is up 4.84% year-to-date. That is better than the S&P 500 over the same period by more than 3.00%. The supply outlook is supportive of this trend continuing. Next week we expect less than \$5bln in new issuance to come to market. Just over \$7bln is slated for the next 30-days. The supply story remains unchanged; the number of dollars chasing traditional bonds should still far exceed the amount available in the marketplace. The hostile geopolitical landscape further supports our constructive Muni outlook.

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
Core Plus ETF	Min  Max		Slight Overweight to Corporates
Tactical Opportunity ETF	Min  Max		Slight Overweight Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.35	0.00	0.35	81%
5 Year	1.19	0.04	1.15	69%
10 Year	2.27	0.00	2.27	85%
30 Year	3.46	-0.04	3.50	101%
UST Rates				
2 Year	0.43	0.04	0.39	
5 Year	1.73	0.00	1.73	
10 Year	2.67	-0.04	2.71	
30 Year	3.44	-0.07	3.51	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.01	\$4.56
Competitive	\$2.85	\$1.63
TOTAL	\$4.86	\$6.19

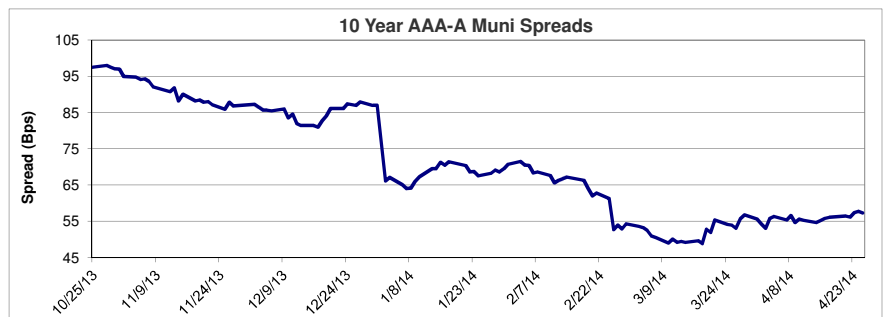
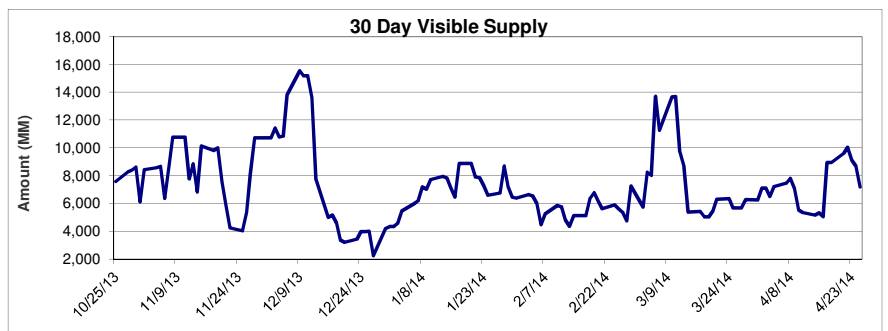
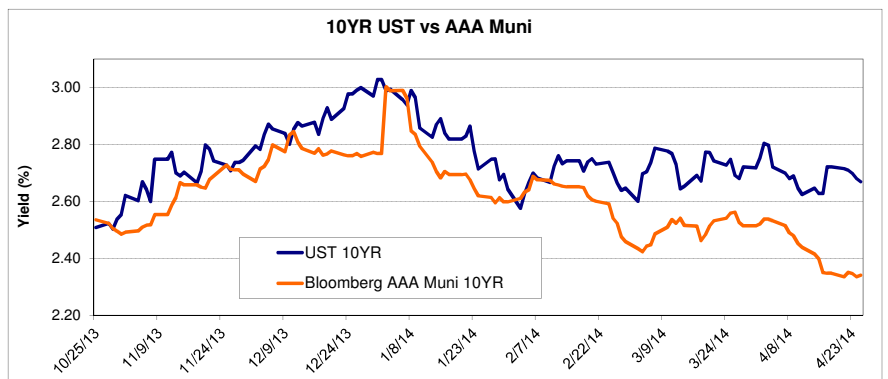
Municipal 30 Day Visible Supply (\$ Bln)	\$7.19	\$8.95
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Bloomberg Muni PICK Offerings (\$ Bln)	\$12.33	\$13.30
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Bond Buyer 20 Municipal G.O. Index	4.33%	4.32%
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Select Economic Releases

Date	Event	Period	Survey	Prior
4/29	Consumer Confidence Index	Apr	83.00	82.30
4/30	MBA Mortgage Applications	25-Apr	--	-3.30%
4/30	GDP Annualized QoQ	1Q A	1.20%	2.60%
4/30	FOMC Rate Decision	30-Apr	0.25%	0.25%
4/30	Fed QE3 Pace	Apr	\$45B	\$55B
5/1	Initial Jobless Claims	26-Apr	320K	329K
5/1	Markit US Manufacturing PMI	Apr F	55.40	55.40
5/1	ISM Manufacturing	Apr	54.20	53.70
5/2	Change in Nonfarm Payrolls	Apr	210K	192K
5/2	Unemployment Rate	Apr	6.60%	6.70%
5/2	Factory Orders	Mar	1.50%	1.60%



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.

AAA-A Muni Spreads - The difference in yield, as expressed in basis points (.01%), between the Bloomberg BVAL AAA 10 Year Benchmark Muni Index and the BVAL A Revenue 10 Year Muni Index.

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 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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