












Trading Desk Commentary

This week's impressive US Treasury rally pushed the 10-year note's yield through the bottom of its trading channel – one in which it had been stuck for almost five months. Yesterday's activity was particularly notable. UST's shrugged off a decent Continuing Claims print and a higher-than-anticipated CPI release and rocketed to yield levels not seen since October of last year. Now, intermediate Treasuries find themselves at the low-end of the longer-term range we detailed in last week's recap. The floor of the 10-year range established last June is roughly 2.47%. As of this writing, the 10-year UST is trading around a 2.51%. The fact that the 10-year broke through 2.65% in the first place is significant in itself. Now that we are testing the 2.47% threshold, traders are finding it difficult to put together a rate outlook. Speculation that the ECB could soon unveil further monetary easing to combat the EU's low inflation helped coerce Treasuries to these higher prices. Short covering activity appears to have contributed as well. For months, trades have set up short positions in US Treasuries under the presumption that yields were destined to go higher. After all, the Fed is on 'tapering auto-pilot' and Yellen suggesting the Fed was looking at a rate hike in mid-2015 boosted confidence in the short trade. Recent activity suggests that the confidence is all but gone. Furthermore, should the 10-year break through the 2.47% technical level, it becomes more difficult to predict where the next level of resistance might be. Today's solid housing report gave participants reason to pull back from the bottom of the range and move to slightly higher yields, though a surprisingly low University of Michigan Confidence release kept any meaningful sell-off in check.

Munis continue to chug along, though their performance, while positive, did not achieve the same level of conviction as their taxable counterparts. Tax-exempt supply looked the same this week as it did last week, and the week before that and the week before that...and next week looks the same. Notice a pattern? Next week will deliver roughly \$5.75bln in new issuance, led by a \$895mln (Aaa/AAA) Missouri Highway & Transportation Commission revenue deal and a \$650mln (Aa3/AA) State of Connecticut general obligation loan. The Bond Buyer 30-day visible supply remains in the \$8-9bln range, slightly above the 12-month moving average but still in the 'very manageable' zone – particularly if the rate environment stays in its steady state. Yet another week of Muni bond fund inflows reported by Lipper suggests investors' appetite for Muni exposure remains healthy. And, there is not much on the horizon that one can pinpoint as evidence that this sentiment will change in the near-term. Next week's US economic release calendar is light, with little data scheduled that could shake things up. Global headlines pose the largest threat next week to stability in the fixed income space – Russia-Ukraine tensions, EU stimulus speculation, and Chinese data. That will take us into the Memorial Day holiday weekend, which will disrupt Muni supply as it always does as we head into the month of June, a month known for its sizable reinvestments. This coupled with continued low supply makes it easy to paint a stable-to-strong forecast for Munis well into the summer months. For the moment, the Muni train is showing no signs of slowing down.

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	0.31	-0.01	0.32	86%
5 Year	1.17	-0.05	1.22	75%
10 Year	2.16	-0.10	2.26	86%
30 Year	3.23	-0.12	3.35	97%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.36	-0.02	0.38
5 Year	1.55	-0.07	1.62
10 Year	2.52	-0.10	2.62
30 Year	3.34	-0.12	3.46

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$4.19	\$3.86
Competitive	\$1.10	\$1.05
TOTAL	\$5.29	\$4.91

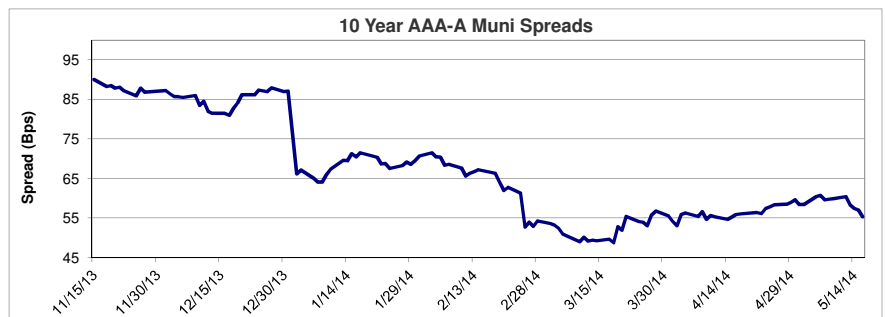
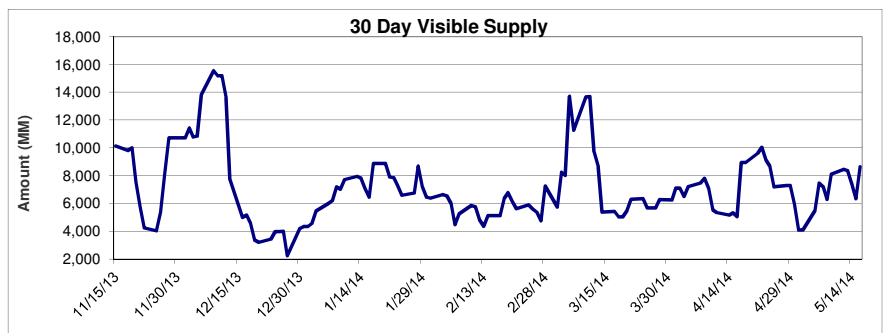
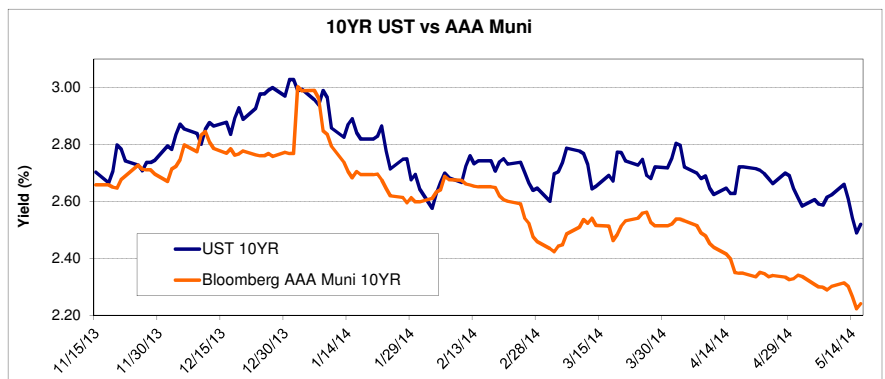
Municipal 30 Day Visible Supply (\$ Bln)	\$8.64	\$8.12
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Bloomberg Muni PICK Offerings (\$ Bln)	\$11.66	\$12.43
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Bond Buyer 20 Municipal G.O. Index	4.26%	4.31%
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Select Economic Releases

Date	Event	Period	Survey	Prior
5/21	MBA Mortgage Applications	16-May	--	3.60%
5/22	Initial Jobless Claims	17-May	310K	297K
5/22	Continuing Claims	10-May	2670K	2667K
5/22	Markit US Manufacturing PMI	May P	55.50	55.40
5/22	Existing Home Sales	Apr	4.68M	4.59M
5/22	Leading Index	Apr	0.40%	0.80%
5/23	New Home Sales	Apr	420K	384K



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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