












Trading Desk Commentary

US Treasuries traded in a choppy, narrow range this week and finished in a similar spot to where they started. Wednesday's release of the Fed Minutes from the FOMC's meeting earlier this month was short on new revelations. US Treasuries initially sold off in response to some language centered on how the Fed will go about tightening policy and increasing rates when the time comes. However, much more emphasis was given to the fact that the Fed is still a long way from enacting any policy shifts. Inflation remains Yellen's chief concern and as time goes on, the housing sector, which was supposed to serve as a major tailwind for the US recovery, is falling well short of expectations. New and existing home sales data are still suffering from the spike in interest rates late last year, which put a freeze on home-buying activity. The S&P/Case-Shiller Home Price Index depicts a flat-to-declining trend in home prices since last October. Housing is simply not in a position to withstand a meaningful rise in interest rates, and home values make up a large portion of individual wealth. If the asset class is not appreciating, where else can consumers find gains? Not in their take-home pay. Wage growth remains paltry and some of the clearest proof of the sputtering recovery. Wage growth data actually captures the effect of unemployment and the participation rate, making it a decent one-stop shop for labor market conditions. Further weighing on investor's minds are geopolitical tensions and disappointing global data. The Russia-Ukraine situation is still a dark cloud hanging over markets. How ominous those clouds appear depends on the day. Also, the ECB is likely to unleash a round of easing in June to help spark activity within the EU. Given all of these factors, the bias is leaning towards risk-off, though US stocks are still refusing to crack. Next Thursday, we will get our second look at 1Q GDP, which printed a startlingly low +0.1% in its first release a few weeks ago. Consensus is actually expecting a downward revision into negative territory (-0.6%) with the second look. Anything close to this survey would likely be bullish in fixed income. A meaningful surprise to the upside would likely un-tether US Treasury yields for a move closer to their previous trading range (2.65-2.80% in the 10Yr UST).

Munis took their cues from taxable trading while participants devoured what little issuance came to market. The Bond Buyer 30-day visible supply is just north of \$10bln, higher than we have seen in recent weeks. It should be noted that very little of this issuance will likely come next week given the Memorial Day holiday and the heavy vacationing that tends to happen around the break. Low supply continues to support stable Muni prices, and there is no relief in sight for those looking for new debt. Janney released a Muni research piece predicting just \$250-\$275bln in new issuance for 2014 and a decreasing amount of issuance every year through 2017. Their reasoning echoes much of what we have said in this space over the past few years: belt-tightening, the refunding rush in the past few years at lower interest rates, and the unpopularity of new debt among constituents. The research is very interesting and well-presented, and will give Muni traders plenty to think about over the three-day weekend.

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	0.00	0.31	91%
5 Year	1.17	0.00	1.17	77%
10 Year	2.20	0.04	2.16	87%
30 Year	3.30	0.07	3.23	97%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.34	-0.02	0.36
5 Year	1.52	-0.03	1.55
10 Year	2.53	0.01	2.52
30 Year	3.39	0.05	3.34

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.79	\$4.19
Competitive	\$0.40	\$1.10
TOTAL	\$4.19	\$5.29

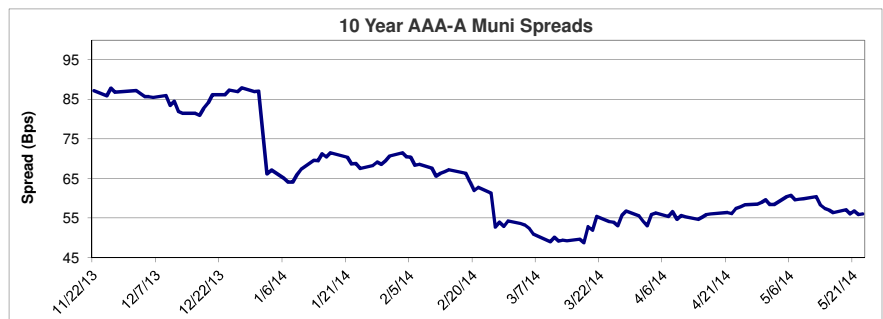
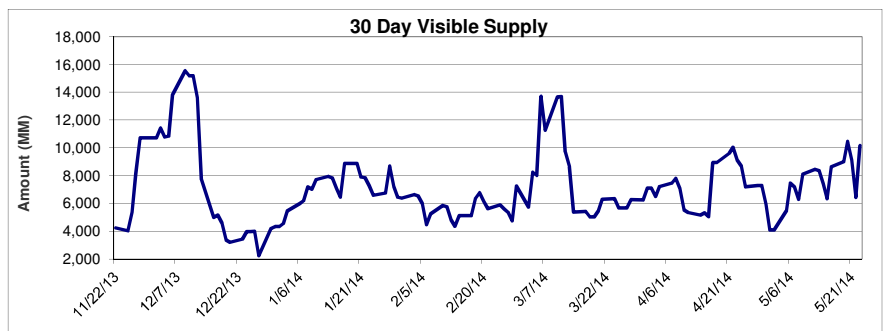
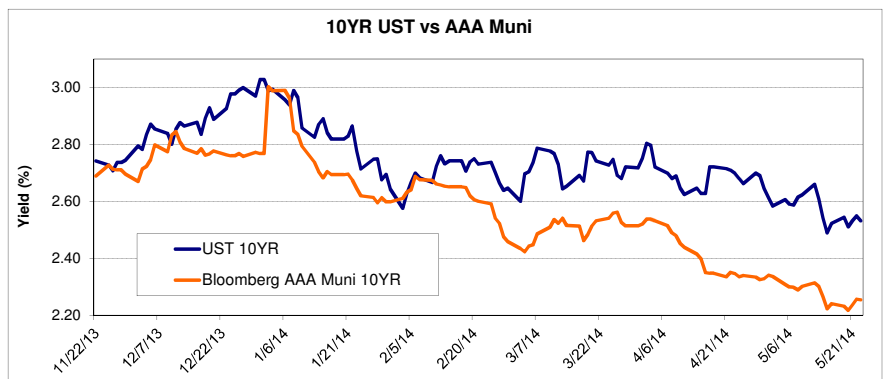
Municipal 30 Day Visible Supply (\$ Bln)	\$10.17	\$8.64
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Bloomberg Muni PICK Offerings (\$ Bln)	\$14.46	\$11.66
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Bond Buyer 20 Municipal G.O. Index	4.28%	4.26%
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Select Economic Releases

Date	Event	Period	Survey	Prior
5/27	Durable Goods Orders	Apr	-0.70%	2.60%
5/27	Consumer Confidence Index	May	83.00	82.30
5/28	MBA Mortgage Applications	23-May	--	0.90%
5/29	Initial Jobless Claims	24-May	318K	326K
5/29	GDP Annualized QoQ	1Q S	-0.50%	0.10%
5/29	GDP Price Index	1Q S	1.30%	1.30%
5/29	Pending Home Sales MoM	Apr	1.00%	3.40%
5/30	Personal Spending	Apr	0.20%	0.90%
5/30	Personal Income	Apr	0.30%	0.50%
5/30	Chicago Purchasing Manager	May	60.80	63.00
5/30	Univ. of Michigan Confidence	May F	82.50	81.80



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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