

## Trading Desk Commentary

US Treasuries had largely baked in yesterday's miserable GDP print (the second look at Q1), which showed the economy contracted at a seasonally-adjusted annualized rate of -1.0%. This is a revision downward from the +0.1% print from the initial release and marks the worst GDP level since Q1 2013. The data's final chance for improvement will come on June 25th; however, it's safe to say that the first quarter of 2014 will go down as a bust. Forecasters are expecting Q2 GDP to serve as a make-up call for the lackluster start to the year, which is largely being blamed on winter weather disruptions. Unchaining pent-up demand in Q2 could result in a strong rebound from what we are seeing now, but the first look at Q2 output won't come until late July. GDP was not the only bummer this week. The housing sector's streak of disappointment continued, solidifying its place as a chief obstacle on the path to recovery. The myriad of headwinds are sustaining the recent demand for haven assets. The 10-year US Treasury continues to trade sub-2.50% with ease. The traditional inverse relationship of stock and bond performance has disconnected in recent weeks. While US Treasuries trade close to their highest prices in recent memory, equity indices are setting all-time highs of their own. Debt prices appear inflated on a historical basis; however, threats remain that are supportive of rich bond prices. Of course, Ukraine-Russia tensions remain on everyone's radar. The ECB's likely easing in June and this week's surprisingly bad employment report in Germany is causing a spillover effect into US debt markets. Also, looks into China's economy recently have shown significant signs of fatigue. In our opinion, it would take a catastrophic event to knock the Fed off its tapering course, which remain full steam ahead. But in this dreary economic landscape, US Treasuries don't need the Fed's deep pockets to stay on stable (or even higher) ground.

Muni evals held steady or improved each day this week. New issuance felt well-received across the board. This is still unsurprising given the historically low supply levels thus far in 2014. Issuers have not kept up with investor demand – by a long shot. Even more traditional levels of new issuance would likely be outstripped by participants' appetite for Munis these days. We may be headed for some mild relief in the form of a larger 30-day visible supply, according to The Bond Buyer. They are expecting almost \$13bln in new issuance by the end of June, a marked improvement over this year's volume averages. In fact, only a brief spike in supply in early March (caused by behemoth State of California and Puerto Rico GO deals) resulted in a larger 30-day calendar. That's a sight for sore eyes in Muniland. Assuming the US Treasury backdrop remains moderately conducive to buying new debt, we would still expect this amount of issuance to find a home without any hiccups. Lipper reported yet another week of significant inflows into Muni bond funds. These strong numbers display not only the demand for fixed income but also the increasing difficulty for investors to locate traditional Muni paper. The reliance on funds and ETFs as an alternative is at an all-time high. Until issuance becomes more favorable among state and local municipalities, this phenomenon will only grow more severe. Next week's \$6.5bln supply will give us a chance to look through some larger transportation, water and power deals from around the country as we continue to add incremental yield into all of our short and intermediate Muni portfolios.

## Caprin Strategy Summary

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

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	-0.02	0.31	78%
5 Year	1.15	-0.02	1.17	75%
10 Year	2.16	-0.04	2.20	88%
30 Year	3.26	-0.04	3.30	98%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.37	0.03	0.34
5 Year	1.53	0.01	1.52
10 Year	2.46	-0.07	2.53
30 Year	3.31	-0.08	3.39

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$4.70	\$3.79
Competitive	\$1.64	\$0.40
<b>TOTAL</b>	<b>\$6.34</b>	<b>\$4.19</b>

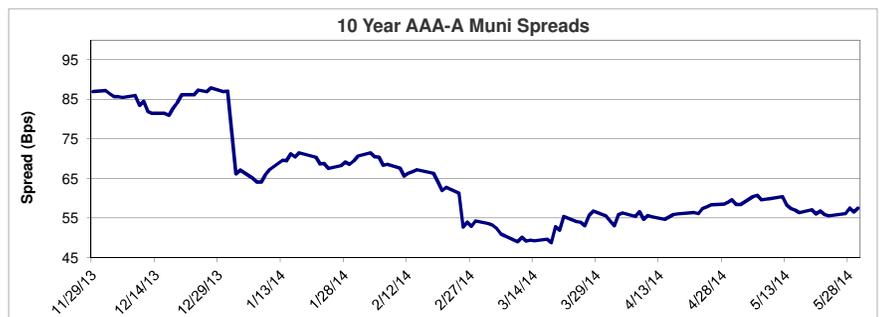
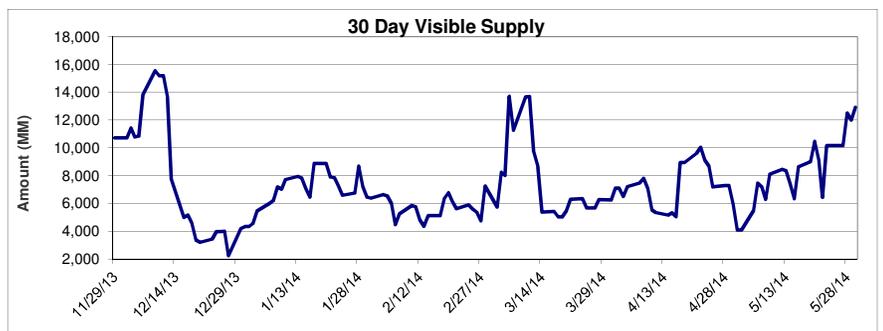
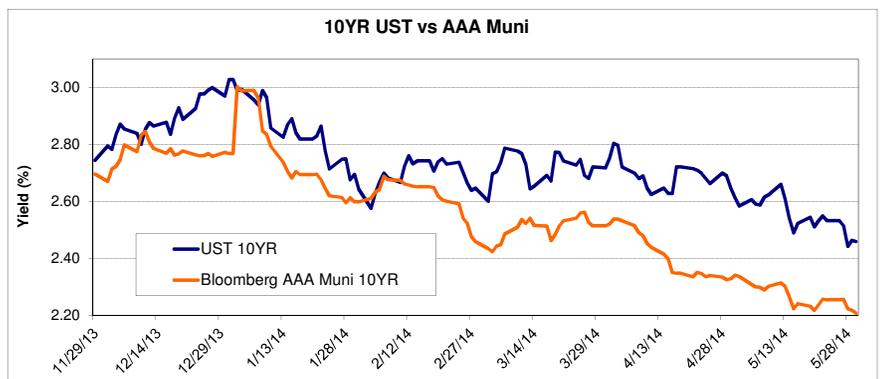
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$12.93</b>	<b>\$10.17</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$11.23</b>	<b>\$14.46</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.26%</b>	<b>4.28%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
6/2	Markit US Manufacturing PMI	May F	56.20	56.20
6/2	ISM Manufacturing	May	55.50	54.90
6/2	Construction Spending MoM	Apr	0.60%	0.20%
6/3	Factory Orders	Apr	0.50%	1.10%
6/4	MBA Mortgage Applications	30-May	--	-1.20%
6/4	ADP Employment Change	May	210K	220K
6/4	ISM Non-Manf. Composite	May	55.50	55.20
6/5	Initial Jobless Claims	31-May	311K	300K
6/6	Change in Nonfarm Payrolls	May	220K	288K
6/6	Unemployment Rate	May	6.40%	6.30%



**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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