

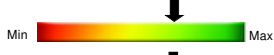










## Trading Desk Commentary

A little weakness in US Treasuries today does not change the fact that the August was characterized by powerful demand for bonds. Participants' need for safety pushed the UST 10's yield lower by roughly 20 basis points (0.20%) to a 2.33% as of this writing. At mid-month we noted that the UST 10 had broken through the bottom of a significant yield channel near the 2.40% mark, but it has since checked up twice in the mid-2.30's. The catalysts for these low US yields are originating overseas. The risks in Ukraine, Iraq, Syria and Israel are well-known and have been well-documented here. Headlines of cease-fires and diplomacy from these regions habitually have been followed by news of escalation and heightened tensions. In particular, ISIS's horrific actions have given a new face to pure evil. The longer their terror goes unchecked, the more uneasy investors may grow, and President Obama's comment about strategy (or the lack of one) in yesterday's White House news conference did little to ease the world's ISIS fears. In our minds, the likelihood of US military intervention is very high, but we will have to wait for concrete details as the White House is still playing its cards close to the vest. The President also made it clear that we are not considering military action in Ukraine. Instead, we will lean on sanctions and cooperation with our NATO allies. The world stage is ablaze – there is no denying it. The outcomes are uncertain, and investors are not ignoring the range of possibilities.

On the economic front, the European Central Bank is considering more easing. Eurozone economies are struggling mightily, and the ECB is exhausting its monetary weapons arsenal. ECB President Mario Draghi clearly stated that nothing is off the table at this point. The ECB will meet next Thursday to discuss plans to cut the continent's target rates or potentially introduce further easing. The region's sovereign yields are exceedingly low and causing international investors to look at US debt as an attractive relative value play. This continues to serve as a support system for a sub-2.40% UST 10. The German 10 Year bund is offering just 0.88% (versus 2.33% in the US). US Treasury yields will likely find it difficult to break out to the upside until Europe finds firmer footing. Domestic data looks mixed at best: US GDP was revised to 4.2% for Q2 yesterday, but housing and labor numbers are underwhelming. The US growth slowdown in Q1 did damage to the US outlook and confidence. However, were it not for such a chaotic geopolitical picture, we believe that US fundamentals alone justify higher yields than what we have today. At least a quarter-point is missing in UST 10 Year yields as a result of the world's troubles.

The upcoming Labor Day holiday disrupted this week's and next week's Municipal supply. Issuers brought less than \$3bln to market this week, and only \$4bln is on the calendar for the next 30 days. We expect that number to increase after we move beyond the break, but not above the \$6-8bln range in which we have sat for months. Tax-exempt demand remains as strong as ever, and we are very actively pursuing new issuance and securities in the secondary. We are extending accounts towards the long end of our neutral range. We believe that we are likely stuck in a sideways-to-stronger market over the near-term and want to boost income and the opportunity for increased price performance in the interim. We are still avoiding the front of the yield curve - there is simply not enough yield in the shortest Munis to justify parking money there. Instead, buying 10-12 year dated debt better suits our current outlook. Yet another week of strong Muni bond fund inflows (Lipper) is demonstrating that the appetite for Muni is not going anywhere. Bottom line: our Muni outlook is still very constructive. We hope everyone enjoys a well-earned Labor Day holiday. 'Til next week.

## Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni		0 YRS  5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable		0 YRS  5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni		0 YRS  17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable		0 YRS  12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF			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	0.30	0.00	0.30	61%
5 Year	1.08	-0.03	1.11	67%
10 Year	2.07	-0.07	2.14	88%
30 Year	3.03	-0.09	3.12	98%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.49	0.01	0.48
5 Year	1.62	-0.03	1.65
10 Year	2.34	-0.06	2.40
30 Year	3.08	-0.07	3.15

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$1.30	\$1.39
Competitive	\$0.62	\$1.07
<b>TOTAL</b>	<b>\$1.92</b>	<b>\$2.46</b>

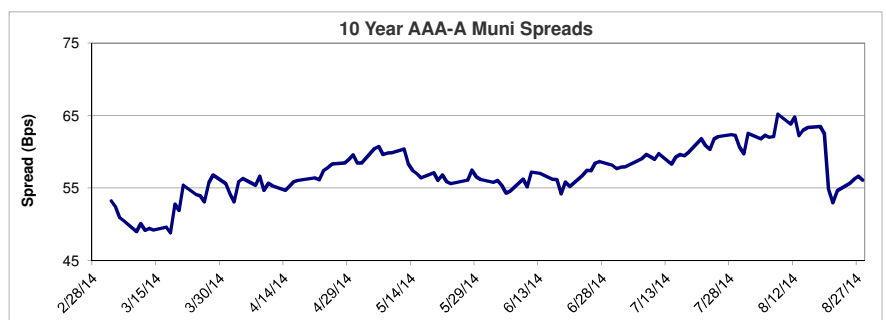
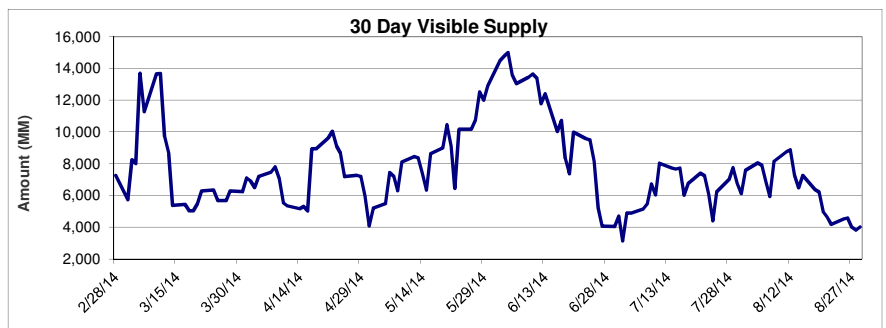
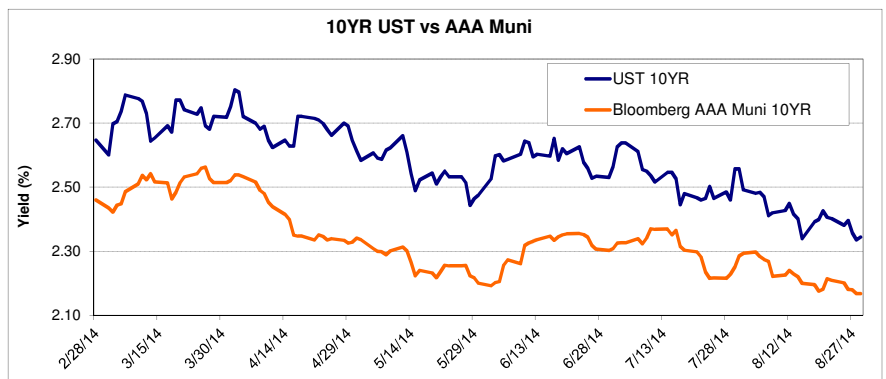
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$4.03</b>	<b>\$4.18</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.03</b>	<b>\$11.65</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.17%</b>	<b>4.21%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
9/2	Markit US Manufacturing PMI	Aug F	--	58.00
9/2	ISM Manufacturing	Aug	57.00	57.10
9/2	Construction Spending MoM	Jul	0.80%	-1.80%
9/3	MBA Mortgage Applications	29-Aug	--	2.80%
9/3	Factory Orders	Jul	10.80%	1.10%
9/4	ADP Employment Change	Aug	215K	218K
9/4	Initial Jobless Claims	30-Aug	298K	298K
9/4	Trade Balance	Jul	-\$42.6B	-\$41.5B
9/5	Change in Nonfarm Payrolls	Aug	220K	209K
9/5	Unemployment Rate	Aug	6.10%	6.20%



**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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