

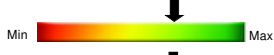



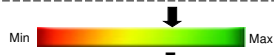

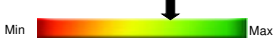

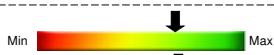


## Trading Desk Commentary

- US Treasury yields moved sharply lower on the week as several key data releases pointed to an economy that may not be moving in a steep enough trajectory to warrant a Fed rate hike in the near future.
- The 5 to 10 year portion of the US Treasury curve saw the most aggressive move lower in yields with the 10 Year rallying .18% (18 basis points) to 1.64%, a level not seen since May '13 right before rates skyrocketed on "taper talk" from then Fed Governor Bernanke
- Early in the week, December US Durable Goods orders declined by -3.4% (vs .3% estimate) while prior month figures were revised downward as well. A strong US Dollar, global growth malaise, and a weakened energy sector brought on by sub-\$50 per barrel crude oil consistently remain the detracting factors on domestic growth as of late. The strong US Dollar also took center stage this week as several large US corporations attributed lower earnings forecasts in '15 to the increasing cost of goods for export.
- The Federal Reserve release on Wednesday provided little further insight as to when the committee may look to begin a path of rate normalization. Chair Yellen and her colleagues did include several observations that helped clarify what is keeping them up at night. On the one hand they strengthened their verbiage on what they see as now "strong" gains in the labor market, but on the other they gave a more pronounced nod to persistently low inflation. Additionally, "international developments" were added to the list of variables the governors will be monitoring.
- Friday's 4<sup>th</sup> Qtr '14 GDP print was likely the most disappointing release of the week with the first look of the growth measure coming in at 2.6% (vs. 3.0% estimate). Several components showed significant declines versus the more robust 2<sup>nd</sup> and 3<sup>rd</sup> Qtr marks, with fixed business investment and net exports losing the most steam. The personal consumption side of the equation did provide a bright spot in otherwise lackluster growth, increasing at a rate not seen since before the financial crisis.

## MUNIS

- Municipals again lagged their taxable counterparts this week, moving lower in the 10 year part of the curve by .09% vs .18% in Treasuries. Primarily led by increasing new issue supply that is set to be approximately \$9Bln this week, and a total visible calendar in excess of \$12Bln.
- January YoY supply was up over 50% as issuers seemed to be making a push to capture another chance at locking in historically low borrowing costs, and fund much needed infrastructure projects.
- Despite growing supply, demand from market participants was still firm on the week as many deals that we participated in continued to see multiple over-subscriptions and price bumps throughout the order periods.
- Muni bond fund flows support this demand thesis as investors placed almost \$900MM into the asset class, with year to date inflows now approaching \$5Bln.
- We remain constructive on the asset class despite the more recent uptick in supply as Muni-to-Treasury ratios past 10 years look particularly attractive being north of 100%.

## Caprin Strategy Summary

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

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.41	-0.01	0.42	91%
5 Year	0.94	-0.06	1.00	82%
10 Year	1.72	-0.09	1.81	105%
30 Year	2.50	-0.09	2.59	113%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.45	-0.03	0.48
5 Year	1.15	-0.16	1.31
10 Year	1.64	-0.16	1.80
30 Year	2.22	-0.16	2.38

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$6.24	\$3.78
Competitive	\$2.74	\$2.24
<b>TOTAL</b>	<b>\$8.98</b>	<b>\$6.02</b>

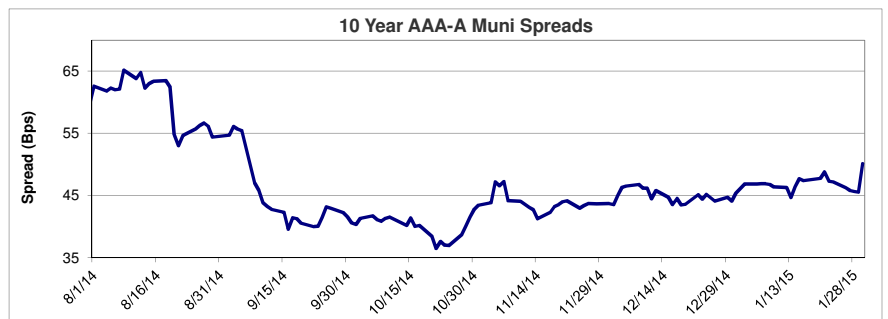
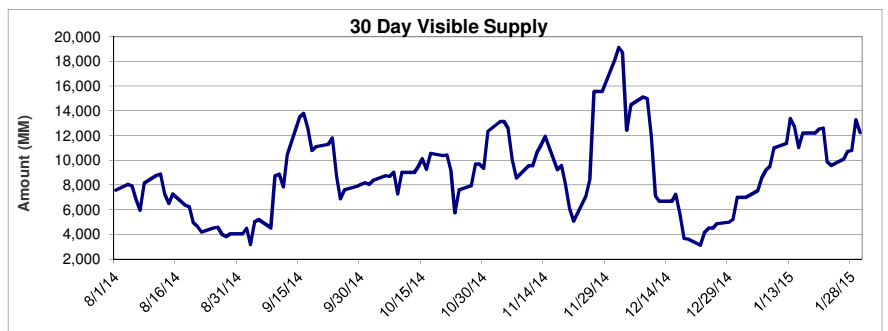
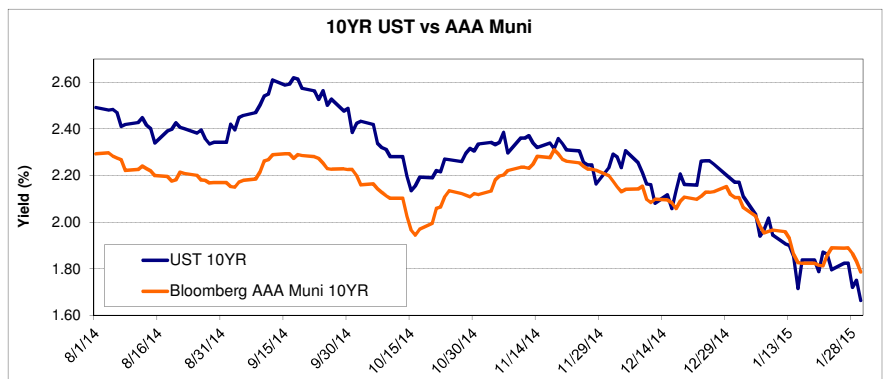
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$12.24</b>	<b>\$9.58</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$13.68</b>	<b>\$14.46</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.36%</b>	<b>3.36%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
2/2	Personal Income	Dec	0.20%	0.40%
2/2	Personal Spending	Dec	-0.20%	0.60%
2/2	Markit US Manufacturing PMI	Jan F	53.70	53.70
2/2	ISM Manufacturing	Jan	54.50	55.50
2/2	Construction Spending MoM	Dec	0.70%	-0.30%
2/3	Factory Orders	Dec	-2.20%	-0.70%
2/4	MBA Mortgage Applications	30-Jan	--	-3.20%
2/4	ADP Employment Change	Jan	223K	241K
2/5	Initial Jobless Claims	31-Jan	289K	265K
2/5	Trade Balance	Dec	-\$38.0B	-\$39.0B
2/6	Change in Nonfarm Payrolls	Jan	238K	252K



**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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