CAPRIN

knowledge preserves wealth

@Caprin_Asset

Q1 2015 INTERMEDIATE MUNI QUARTERLY COMMENTARY

STATE SPECIFIC COMPOSITE CHARACTERISTICS

AS OF: 3/31/2015

Duration: 4.63yrs
Yield-to-Worst: 1.58%
Yield-to-Maturity: 1.93%
Maturity: 6.41yrs

## Strategic Overview

**Macro:** The beginning of 2015 saw strong cross-currents spur volatility as investors assessed the implications of further monetary policy divergence between the U.S. and other G-7 nations. With the implementation of the European Central Bank's own version of quantitative easing, sovereign yield levels plunged to historic lows while our own Federal Reserve moved ever closer to increasing its benchmark rate for the first time in almost a decade. The notable byproduct of this disparity in global rates continued to be a pervasive rally in the U.S. dollar that further weighed on U.S. export strength as the quarter progressed. Domestic growth measures again showed an economy that remains on a relatively flat trajectory despite notable gains seen in the job market in the quarter. The Federal Reserve continued to take the necessary steps to have the flexibility to increase rates later this year but at every opportunity reminded market participants that they were still in no rush to do so. The clear lack of inflation both domestically and abroad continued to muddy the waters for both investors and the Central Bank, and a steep decline in energy prices only added to the dilemma. The ongoing themes of low inflation and even lower sovereign yields once again proved to be the prevailing factors that saw yet another quarter with generally positive price performance for fixed income.

**Market Dynamics:** Supply was the focus of the municipal market during the first quarter as issuers flocked to take advantage of what many feared might be a fleeting opportunity to lock in still historically low financing levels. Approximately $100 billion in new deals were issued in the first three months of the year, representing a more than 60% jump over the same time in 2014. The increased availability was certainly a welcomed sight to a market that has remained supply constrained for a number of years; however, given the backdrop of heightened rate volatility, investors remained cautious. Power and hospital sectors again provided incremental outperformance, as the power sector ultimately benefited from declining fuel costs.

**Caprin Performance Notes:** We maintained a duration position toward the longer end of our neutral range through the quarter as our thesis for continued low interest rates remained intact. Yield curve positioning was a large component of total return for the first three months of the year as longer maturities continued to benefit from a flattening trend brought on by the factors mentioned above. We remained constructive on the 10-15 year portion of the curve as a way to capture incremental income without taking on undo interest rate risk inherent in longer positions. Our overweight to revenue sectors such as hospitals and power further enhanced yield over the quarter and saw outperformance compared to other sectors.

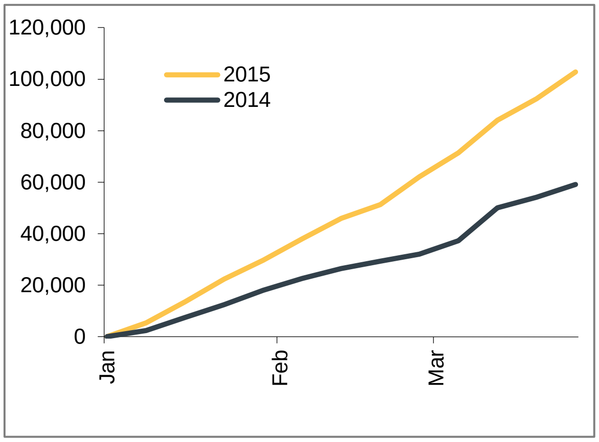


Figure 1: Total US Muni Issuance 2014 vs. 2015 ($mlns)
Source: Bloomberg

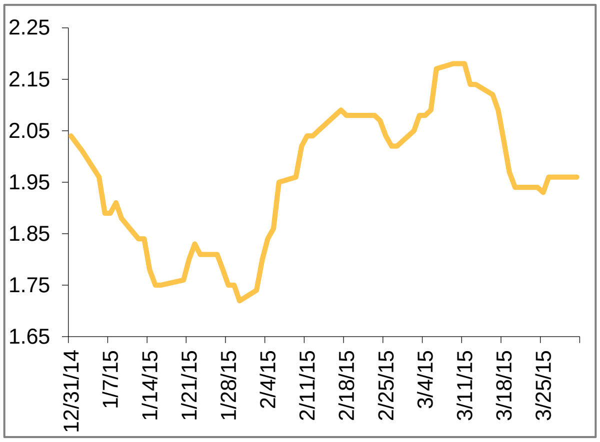


Figure 2: 10-Year MMD AAA Muni Yield
Source: MMD


1802 Bayberry Court, Suite 202
Richmond, Virginia 23226
804] 648-3333
CAPRINBONDS.COM

Media Contact:
aplotkin@caprinbonds.com