

## Trading Desk Commentary












US rates went on a tumultuous journey last week ultimately closing relatively flat on Friday's final print. You would not have guessed it given the 24bp trading range, but 10s made a complete round trip beginning and ending the week at a 2.14%. While US economic data continues to come in softer, trading opportunities in sovereign yield movements and testing of key resistance levels in USTs (2.24% on 10s) led traders to keep upward pressure on rates at the beginning of the week. The dovish market participants fought back towards the end of the week and restored a firmer bid to the latter part of the curve. The Treasury auctioned 3, 10, and 30 year debt this past week. Demand was strong for the 3s and 10s, but, as bonds rallied later in the week, the 30yr auction on Thursday suffered. We expect this type of volatility to increase in both frequency and severity as we progress through a thinly traded summer into what should be an eventful late 2015.

In taxable markets, short bullet and callable agency spreads remained unchanged. BAML's IG corporate OAS tightened 1bp on the week and credit spreads tightened back up to their 3month range after touching some higher levels earlier in the week. M&A continues to hit the news wires, this week Verizon purchased AOL for \$4.4B. Corporate new issuance continues to exceed analysts' expectations with \$138B pricing in April vs the \$91B expected, according to a Bloomberg survey. We continue to believe that, without improvement in underlying US fundamentals, rates will have a difficult time moving meaningfully higher. We continue to look past the volatility and to be constructive, looking for factors that will support and push rates higher in a more concrete fashion.

Another week has come and gone in the Muni space. Even with consecutive weeks of fund outflows and rising rates, we saw approximately \$10 billion in primary issuance get placed with relative ease. The aggressive Treasury selloff earlier in the week led to some slight cheapening in the primary market, however the aggressive rally towards the end of the week provided a firmer tone. Munis continued to underperform the Treasury market and, with near-term supply elevated and fund outflows potentially becoming the weekly norm, we expect munis to continue to lag the broader Treasury market.

The major muni headline this week was the rating action against Chicago. Moody's hit the Windy City with a hurricane-force punch and downgraded the City's GO debt to Ba1 (non-investment grade) from Baa1. Later in the week Moody's subsequently downgraded the City's School District to Ba3 citing increased strain on its already hazardous financial position. The downgrades stem from well known fiscal troubles and a ruling we commented on last week concerning the Illinois State Supreme court striking down a law enacted which limited pension benefits of current and former city and local government employees. We saw an increase in bids wanted on Chicago paper towards the end of the week and noticed many trades being executed at significant discounts, resulting in hefty spreads over the AAA MMD scale. Both S&P and Fitch reacted to Moody's action late in the week, also downgrading the City but keeping it above investment grade. We will continue to monitor this situation, how the downgrades could trigger several collateral-posting events for the City and how they will impact overall liquidity. The City is expected to come to market next week with a \$181 million GO refunding transaction.

## 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		Overweight to CA
Core Plus ETF	Min  Max		Slight Overweight to Corporates
Tactical Opportunity ETF	Min  Max		Neutral Munis to Taxables

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.60	0.02	0.58	113%
5 Year	1.40	0.03	1.37	96%
10 Year	2.25	0.07	2.18	105%
30 Year	3.23	0.10	3.13	110%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.53	-0.04	0.57
5 Year	1.46	-0.02	1.48
10 Year	2.14	0.00	2.14
30 Year	2.93	0.03	2.90

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$6.46	\$6.42
Competitive	\$2.39	\$1.35
<b>TOTAL</b>	<b>\$8.85</b>	<b>\$7.77</b>

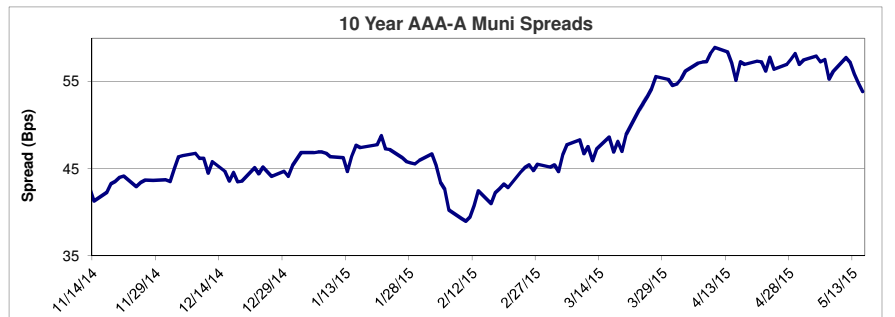
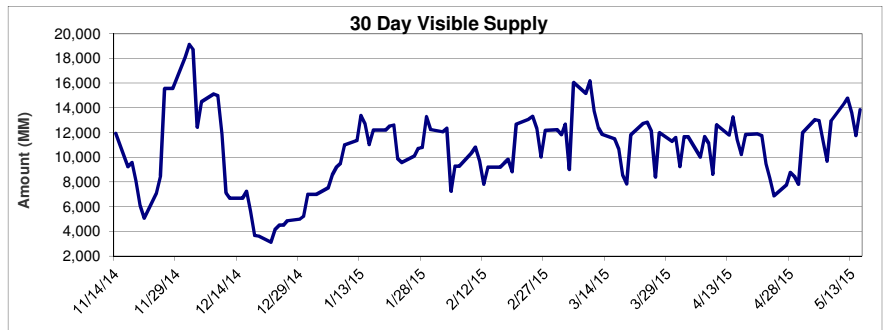
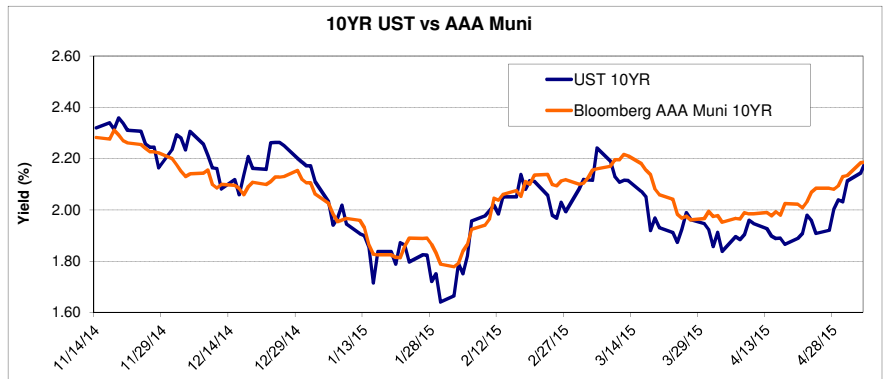
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$13.85</b>	<b>\$13.98</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$14.13</b>	<b>\$13.17</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.74%</b>	<b>3.74%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
5/19	Housing Starts	Apr	1020K	926K
5/20	MBA Mortgage Applications	15-May	--	-3.50%
5/21	Initial Jobless Claims	16-May	270K	264K
5/21	Markit US Manufacturing PMI	May P	54.50	54.10
5/21	Existing Home Sales	Apr	5.24M	5.19M
5/21	Leading Index	Apr	0.30%	0.20%
5/21	Philadelphia Fed Business Outlook	May	8.00	7.50
5/22	CPI MoM	Apr	0.10%	0.20%



**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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