

Trading Desk Commentary

Another week of summer trading is in the books as global and territorial default threats continue to loom. Greece continues to be a wild card as they officially missed their payment to the IMF this past week, but by Friday headlines were reporting potential deal headway between the government and creditors. Participants were left anxiously awaiting the results of the July 5th referendum that, as of this writing, shows initial results of a "No" vote, rejecting the austerity plans. Although Greek debt holdings are highly concentrated to qualified buyers and sophisticated investors, the probability of global market volatility surrounding the final outcome of the saga is elevated. Even with most of financial media focused overseas, trader's attention was back on the Fed Thursday as NFP printed softer than expected hitting the tape 223K vs 233K survey. More relevant than the headline number were the downward revisions; April revised down to 187K from 221K and May down to 254K from 280K. Even through the Greek conundrum, USTs remained weaker Tuesday and Wednesday, but, immediately following the jobs print, the 10Y firmed up ~10bps and eventually ended the session at a 2.38%. As expected with events of this caliber, the overall curve steepened for the week. When the dust settles from the referendum outcome and U.S. markets begin to digest the outcomes of overnight trading sessions, the focus will turn to how these issues will affect the Fed and the timing of tightening. The longer the situation drags out, the more difficult it becomes for the Fed to have confidence in their actions. Through the volatility, we remain constructive in our overall duration position and proactive in evaluating how the Fed and Greece impact our strategies.

The July 4 holiday week is typically a sleepy one in the muni space, but last week was no typical week. It was the week of debt deadlines. We were not only eyeing Greece as discussed above, but we were also dealing with the potential results of a Puerto Rico debt default. On Monday, Puerto Rico's Governor Alejandro Padilla made a televised speech in which he stated that Puerto Rico's debt was unpayable and that bondholders would need to take haircuts in order for the island economy to have future growth. Prices on Puerto Rico General Obligation bonds maturing in 20 years dropped 10 points post-speech, trading around 68 cents on the dollar. However, on Wednesday Puerto Rico's Electric Power Authority (PREPA) made a \$415 million payment and Puerto Rico itself also made a \$650 million payment on its general obligation debt due that same day. The island and its largest bondholders are continuing to hold discussions hoping to avoid a default which would affect approximately \$74 billion in outstanding debt. For comparison purposes, it would rank third in the largest sovereign defaults in recent history behind only Greece and Argentina. A default would have far reaching impacts on the muni market but we believe systemic implications would be limited, confined mostly to the high yield sector.

As far as issuance last week, a measly calendar of ~\$3.5 billion was placed with relative ease even with negative headlines and thinly-staffed trading desks. Muni rates were mostly range-bound on the week, moving higher on Greek and Puerto Rico headlines. But the increases were not as large as their Treasury counterparts. Current five, ten, and thirty year ratios currently sit at ~86%, ~97% and ~105%, respectively. We hope everyone had a safe and pleasant July 4th holiday.

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	Slightly Shorter Positioning Given Volatiltiy
Intermediate Muni		0 YRS - 17 YRS	Slightly Shorter Positioning Given Volatiltiy
Intermediate Taxable		0 YRS - 12 YRS	Slightly Shorter Positioning Given Volatiltiy
Tactical Muni ETF			Slightly Short, Overweight to CA
Core Plus ETF			Slightly Short, Overweight to Treasuries
Tactical Opportunity ETF			Slightly Short, Neutral Munis to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.66	0.01	0.65	106%
5 Year	1.40	-0.03	1.43	86%
10 Year	2.32	-0.02	2.34	97%
30 Year	3.33	-0.01	3.34	105%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.62	-0.09	0.71
5 Year	1.63	-0.12	1.75
10 Year	2.38	-0.09	2.47
30 Year	3.18	-0.06	3.24

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$4.56	\$2.60
Competitive	\$1.25	\$0.41
TOTAL	\$5.81	\$3.01

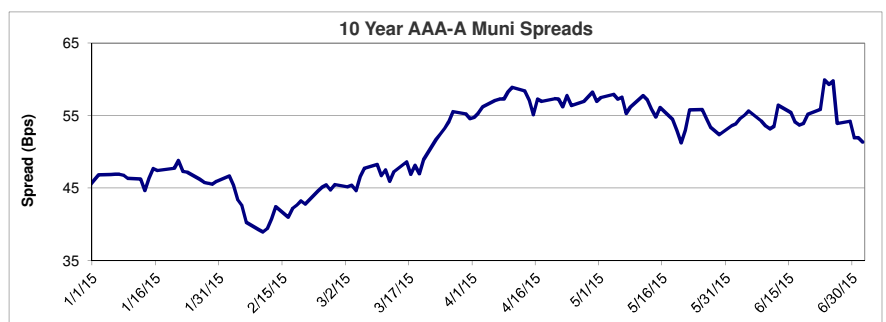
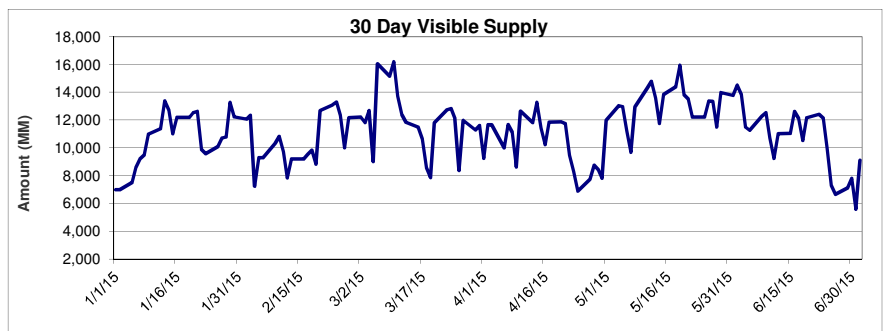
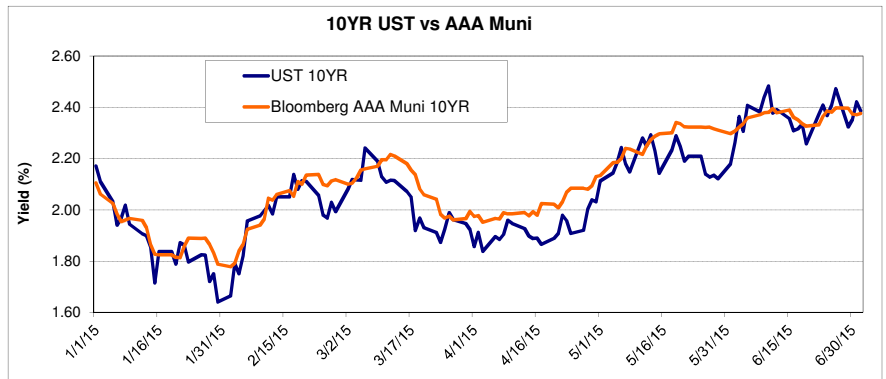
Municipal 30 Day Visible Supply (\$ Bln)	\$9.09	\$6.66
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Bloomberg Muni PICK Offerings (\$ Bln)	\$12.59	\$13.05
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Bond Buyer 20 Municipal G.O. Index	3.85%	3.80%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/6	ISM Non-Manf. Composite	Jun	56.40	55.70
7/7	Trade Balance	May	-\$42.75B	-\$40.90B
7/8	MBA Mortgage Applications	3-Jul	--	-4.70%
7/9	Initial Jobless Claims	4-Jul	277K	281K
7/10	Wholesale Inventories MoM	May	0.30%	0.40%



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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