

## Trading Desk Commentary

So much for a typical sleepy summer week in the markets. The PBOC's devaluation of the Chinese Yuan spilled over into this week causing a risk-off trade. The risk off-trade was further influenced by a weak Chinese Purchasing Managers Index print which came in at its lowest reading since 2009 (47.1). That number, along with a 47.8 reading last month, further indicates that the second largest economy in the world is in the midst of a significant economic slowdown. Any reading under 50 indicates a contraction. Chinese equities continued its recent sell-off, the Shanghai Composite Index fell approximately 9% this week, putting additional pressure on the Chinese government for further support. Meanwhile the price of oil continued to drop. Crude oil futures contracts dipped below \$40/barrel during trading on Friday, resulting in an 8.3% drop in price over the course of the week. The decline in commodity prices coupled with slowing Chinese growth spread to the broader markets. European equity markets reversed course from recent gains while emerging market stocks plunged, realizing their biggest weekly declines in over three years. U.S. equity markets followed suit as the Dow fell over 1,000 points this week. The Dow has lost over 1,300 points during the month of August alone. So what do all the negative global equity headlines mean for bonds? Treasury yields caught a flight-to-quality trade and rallied across the curve beginning Wednesday. Yields on the 5yr, 10yr and 30yr Treasuries were down 17, 16, and 17 basis points in intraday trading, respectively. Meanwhile, the FOMC released their minutes from the July 28-29 meeting. We hoped that the release would give more insight into the Fed's thoughts on a hike this year, however we were left with no definitive signals. The job picture remains positive but the lack of wage growth remains a question. And, with inflation still well below desired levels, the strong underlying fundamentals this data-dependent Fed requires to justify liftoff, remain stubbornly elusive. Couple this with the complexities of recent global equity market turmoil and we are left, along with the Fed, to ponder what the appropriate course of action should be.

Munis underperformed their treasury counterparts on the week. The 5yr, 10yr and 30yr MMD yields were down only 3, 7, and 7 basis points, respectively. Current Muni - Treasury ratios are 92% in 5 years, 104% in 10 years, and 110% in 30 years, making munis particularly attractive vs. Treasuries on the long-end of the curve. Another light week of primary supply was generally well received leaving little traction for the secondary market. Secondary trading volume was thin compared to year-to-date averages and dealer balances remained elevated in many of the states we focus on. The major headlines of the week were centered around the \$750 million Puerto Rico Aqueduct and Sewer Authority (PRASA) transaction that was delayed due to lack of investor interest. After trying to price the transaction as early as Tuesday, the deal was changed to "day-to-day" status on Thursday after investors balked at concessions PRASA agreed to this week. Those concessions included an acceleration fee in the event of a default and a mandate which allowed PRASA to legally increase water and sewer rates by as much as 25% to meet debt service requirements. PRASA needs a part of the proceeds to repay an \$80 million bank loan that is due August 31. In other news Hillview, Kentucky, population 8,000, became the first city to file for bankruptcy since Detroit did two years ago. The City last sold general obligation (GO) debt in 2010 and had less than \$2 million of GO debt on its books when it filed for Chapter 9 protection. Our focus will shift back to the primary market next week where PRASA will race to access the markets prior to an August 31 payment deadline and where a little over \$8 billion of additional supply will be offered.

## 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			Slightly Shorter Positioning Given Volatiltiy
Intermediate Muni			Slightly Shorter Positioning Given Volatiltiy
Intermediate Taxable			Slightly Shorter Positioning Given Volatiltiy
Tactical Muni ETF			Neutral Duration, Overweight to CA
Core Plus ETF			Neutral Duration, Overweight to Treasuries
Tactical Opportunity ETF			Neutral Duration, Overweight Munis

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.62	-0.02	0.64	101%
5 Year	1.32	-0.03	1.35	92%
10 Year	2.13	-0.07	2.20	105%
30 Year	3.00	-0.07	3.07	110%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.61	-0.11	0.72
5 Year	1.43	-0.16	1.59
10 Year	2.04	-0.15	2.19
30 Year	2.72	-0.11	2.84

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$6.51	\$4.40
Competitive	\$0.93	\$1.12
<b>TOTAL</b>	<b>\$7.44</b>	<b>\$5.52</b>

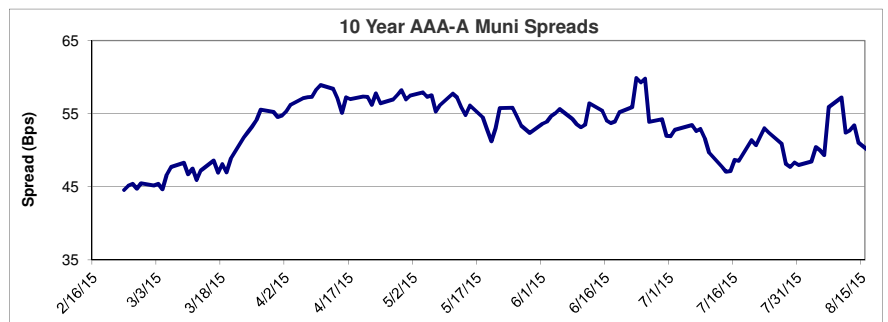
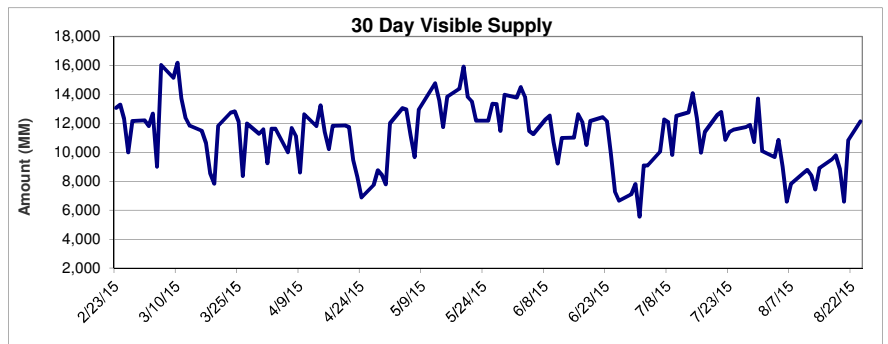
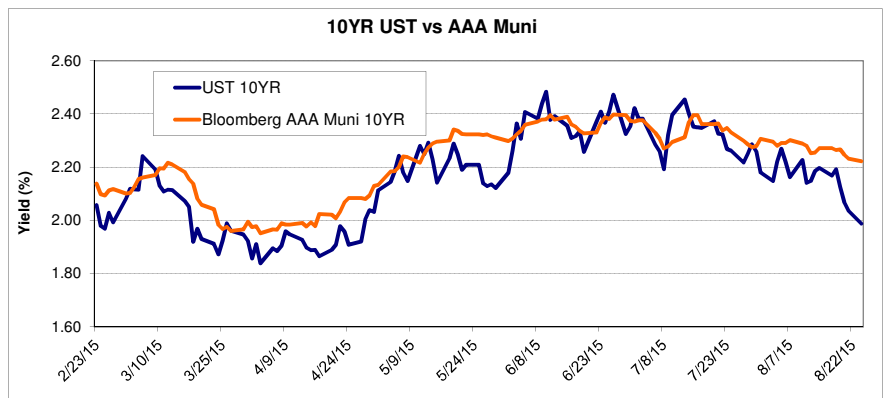
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$12.15</b>	<b>\$8.92</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$13.32</b>	<b>\$13.84</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.73%</b>	<b>3.69%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
8/27	Initial Jobless Claims	8/15	274K	277K
8/27	GDP Annualized QoQ	2Q S	3.20%	2.30%
8/25	Consumer Confidence Index	Aug	93.4	90.9
8/28	U. of Mich. Sentiment	Aug F	93.0	92.9
8/26	Durable Goods Orders	Jul	-0.40%	3.40%
8/26	MBA Mortgage Applications	8/15	--	3.60%
8/25	New Home Sales	Jul	510K	482K
8/28	Personal Spending	Jul	0.40%	0.20%
8/28	Personal Income	Jul	0.40%	0.40%
8/27	Pending Home Sales MoM	Jul	1.00%	-1.80%
8/27	GDP Price Index	2Q S	2.00%	2.00%



**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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