












Trading Desk Commentary

The excitement around the all-important nonfarm payroll number this week seemed, well... weak. In the days leading up to the release, news outlets debated whether the recent string of mixed economic releases were enough to force the Fed's hand into an initial hike. The Bloomberg consensus estimated that payrolls would increase by 225,000, but the print came in slightly lower at 215,000, increasing at about the average pace of the year, which is solid but certainly not robust. After an initial jolt in treasury trading, the market settled back down, and the yield curve continued its flattening trend while short-term rates continued to increase and long-term rates continued to decrease. Fed fund futures now show the highest implied probability of a rate hike to be September, thought traders and portfolio managers have considered a September hike probable for many months. We are ready, and we've been ready; we wish the Fed would just get it over with. The Fed has shown the market its hand, and the market has already been reacting. If you pause and re-read the underlined words above, it becomes clear. Short-term rates are rising because those rates are more data dependent and are directly impacted by the Fed's decision. Those rates are positioning themselves (and have been for several weeks) for a rate hike this year – whether it's September or December. The long-end of the curve, which is more dependent on sustained growth, inflation trends, the dollar, and global yields, among other factors, is rallying. There are still plenty of questions about sustained U.S. growth as GDP remains subdued (0.6% in Q1 and 2.3% in Q2), and, with oil trading around \$44/barrel (down 28% since its YTD high of \$61/barrel in June), inflation remains in check. Throw in a strong dollar impacting exports, an equity market suffering from soft earnings, and add just a pinch of global economic uncertainty and Houston, we could have a problem. However, barring an unanticipated market-moving event, we believe the Fed will raise rates just 25 basis points this year, most likely in September but we are looking beyond this event. We continue to focus on underlying fundamentals and how they will impact long-term rates, the shape of the yield curve, and ultimately short-term rates after the initial hike. Strategically our focus is already on 2016, analyzing higher short-term rates and the timing of additional future hikes.

Turning attention to the municipal market, muni yields showed a similar flattening trend but, as they typically do, lagged their treasury counterparts. A second week of minimal primary issuance was generally well received even though the front end of the curve was under pressure. Puerto Rico made the looming default official last week as their Public Finance Corporation made only a \$628,000 payment towards \$58 million of debt service owed on August 3rd. As a result, a potential default of the island's GO debt and its other issuing authorities became more probable should the island not be able to negotiate a debt restructuring with creditors. Muni funds suffered another week of outflows (as much as \$308 million left the market last week), however the market continued to perform relatively well because of paltry primary issuance and the reinvestment of summer coupon and redemption income. We expect net outflows for the remainder of August but believe that trend may reverse in September – coinciding with a rate hike, which should put considerable pressure on the market. We hope that everyone is enjoying the summer season and finding time for some rest and relaxation, we'll all need it as we gear up for an eventful fall season.

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 Volatility
Intermediate Muni		0 YRS  17 YRS	Slightly Shorter Positioning Given Volatility
Intermediate Taxable		0 YRS  12 YRS	Slightly Shorter Positioning Given Volatility
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	0.64	0.02	0.62	82%
5 Year	1.35	0.05	1.30	84%
10 Year	2.21	0.02	2.19	100%
30 Year	3.08	-0.04	3.12	108%

UST Rates	Current Wk	Prior Wk
2 Year	0.78	0.68
5 Year	1.62	1.55
10 Year	2.21	2.20
30 Year	2.85	2.91

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.35	\$4.80
Competitive	\$0.50	\$2.20
TOTAL	\$3.85	\$7.00

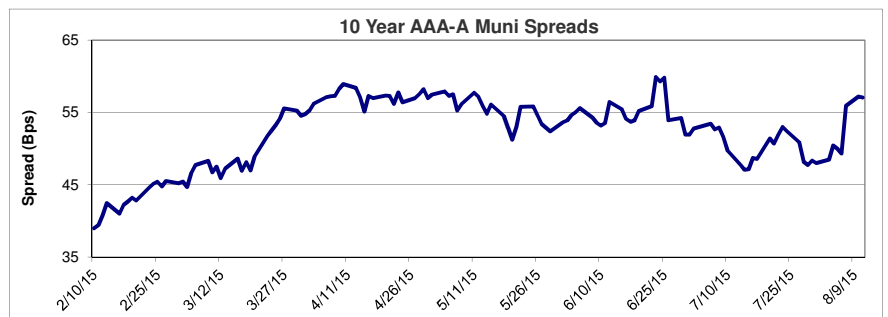
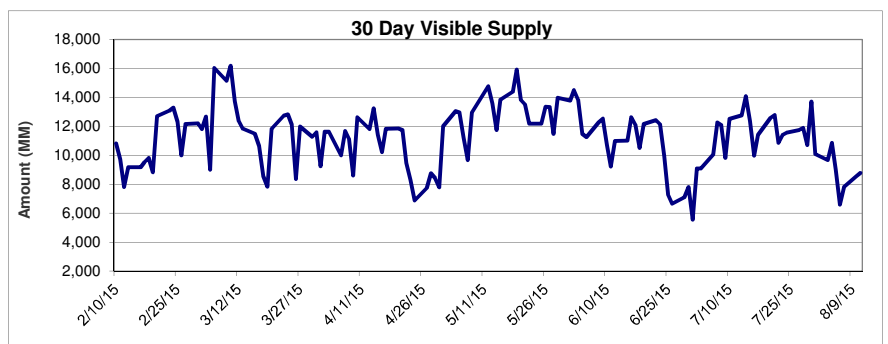
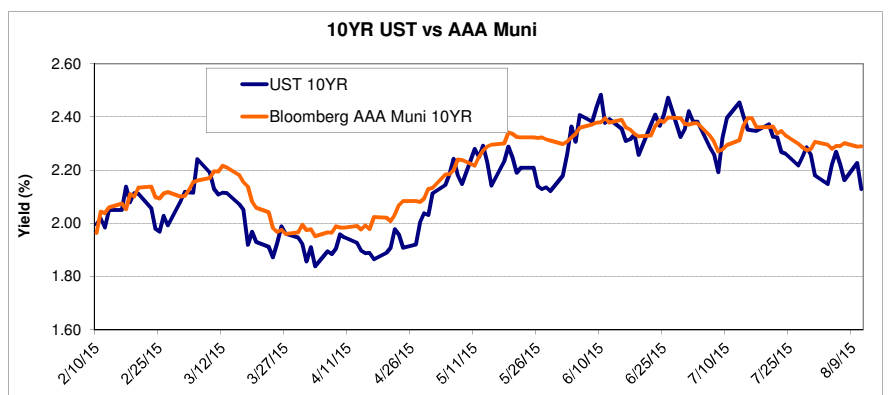
Municipal 30 Day Visible Supply (\$ Bln)	\$7.81	\$10.09
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Bloomberg Muni PICK Offerings (\$ Bln)	\$15.29	\$14.44
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Bond Buyer 20 Municipal G.O. Index	3.75%	3.75%
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Select Economic Releases

Date	Event	Period	Survey	Prior
8/12	MBA Mortgage Applications	8/7	--	4.70%
8/12	Monthly Budget Statement	Jul	-\$137.0B	-\$94.6B
8/13	Retail Sales Advance MoM	Jul	0.60%	-0.30%
8/13	Import Price Index MoM	Jul	-1.20%	-0.10%
8/13	Initial Jobless Claims	8/8	270K	270K
8/13	Continuing Claims	8/1	2245K	2255K
8/14	PPI Final Demand YoY	Jul	-0.90%	-0.70%
8/14	Industrial Production MoM	Jul	0.30%	0.30%
8/14	U. of Mich. Sentiment	Aug Pre	93.5	93.1



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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