

Trading Desk Commentary

As we close out the final trading session for what will surely be noted as an historical week, the sentiment in the markets is one of exhaustion with trading desks a bit uneasy going into the weekend. Let's flash back to Monday's equity open when doom and fear consumed markets as the Dow plunged quadruple digits in the first few minutes of trading. Rates, specifically US treasuries, reacted to the risk-off trade but were muted compared to the equity panic trade. Investment grade Credit spreads, as measured by Markit's CDX index, experienced such a significant amount of volatility that some of the street's index traders compared the session to late 2008. As is usual in these situations, speculation was rampant throughout the day by financial media and even some prominent figureheads, but as was showcased by the sessions that followed, the fear mongering was short lived. Aside from losing a few hairs, most survived unscathed. The Fed minutes spurred the initial tightening in rates, and, although dovish, a case could be made that the minutes presented a slightly stale opinion given the strength in economic data that hit the wires in the weeks since the meeting. Market volatility most certainly is monitored closely by the Fed and may impact their decision to raise rates, but when you sift through the noise, the US economy has been keeping up with the Fed forecasts and projections. So a move in 2015 is not completely off the table. Without delving into the energy abyss, oil stole some limelight with a 20% price move this week, a move that is historically significant to volatility distributions. Flows from both equity and bond funds this week pointed to increased cash on the sidelines during what will likely be a volatile time period.

Munis were outperformers through all of the mayhem as they traded more muted than their taxable counterparts. Typical of the asset class, early in the week volume was way down as volatility spiked with participants leaving cash out of the market to see the conviction behind the trade. The 1.9B CA deal came about 10-12 basis points tighter given their upgrade in early July. In addition, the 2.2B NJ EDA deal came at about +215bp in 10yrs and was one of the larger deals the authority has come with in some time. Both deals were put away with relative ease as they each have a more specific investor demographic that buys the loans. Next week's supply is forecasted at a dismal \$3B with one third of it being a NY Dorm deal backed by Personal Income tax. With the light calendar and another week of heightened volatility, the muni trading landscape will be unique and full of opportunities.

We have been focused on the fact that volatility will continue to persist and may even heighten as domestic and global headwinds develop and the Fed potentially begins to normalize monetary policy. The past week was a prime example. We encourage anyone with specific questions to reach out to our team.

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 Volatility
Intermediate Muni			Slightly Shorter Positioning Given Volatility
Intermediate Taxable			Slightly Shorter Positioning Given Volatility
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	0.59	-0.03	0.62	82%
5 Year	1.33	0.01	1.32	88%
10 Year	2.16	0.03	2.13	99%
30 Year	3.10	0.10	3.00	106%

UST Rates			
2 Year	0.72	0.10	0.61
5 Year	1.51	0.08	1.43
10 Year	2.18	0.14	2.04
30 Year	2.91	0.19	2.72

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.30	\$6.51
Competitive	\$0.85	\$0.93
TOTAL	\$3.15	\$5.52

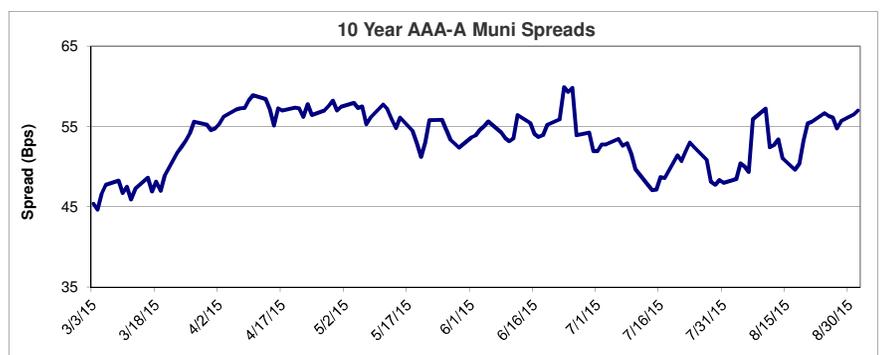
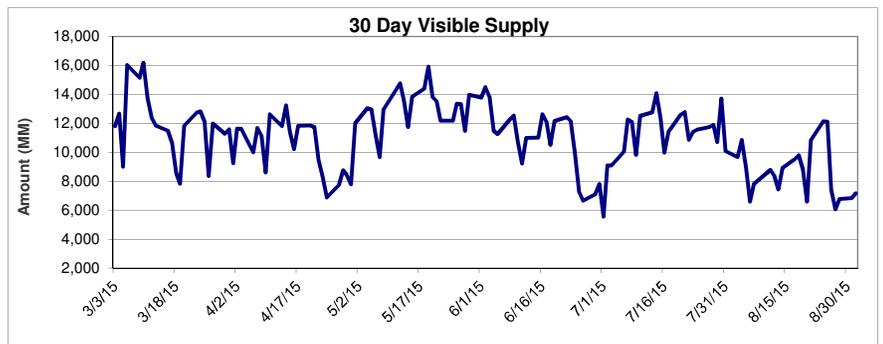
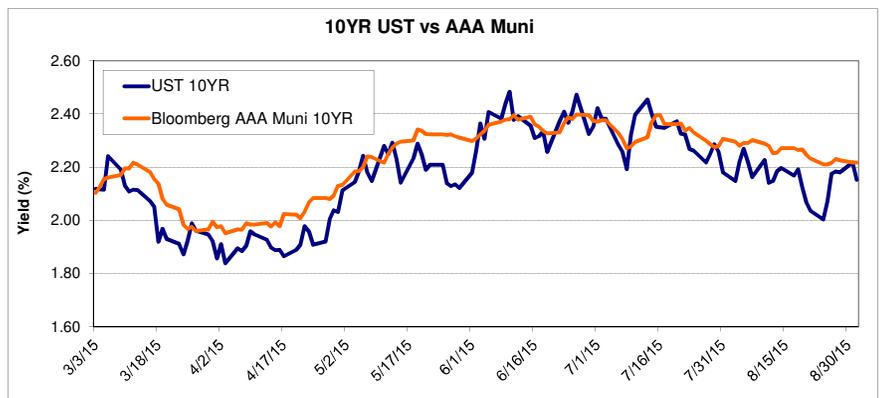
Municipal 30 Day Visible Supply (\$ Bln)	\$6.82	\$12.15
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Bloomberg Muni PICK Offerings (\$ Bln)	\$15.34	\$13.32
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Bond Buyer 20 Municipal G.O. Index	3.79%	3.73%
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Select Economic Releases

Date	Event	Period	Survey	Prior
9/4	Change in Nonfarm Payrolls	Aug	218K	215K
9/3	Initial Jobless Claims	8/29	275K	271K
9/1	ISM Manufacturing	Aug	52.5	52.7
9/2	MBA Mortgage Applications	8/28	--	0.2%
9/1	Markit US Manufacturing PMI	Aug F	52.9%	52.9%
9/4	Unemployment Rate	Aug	5.20%	5.30%
9/2	Factory Orders	Jul	0.9%	1.8%
9/3	Trade Balance	Jul	-\$42.20B	-\$43.84B
9/2	ADP Employment Change	Aug	200K	185K



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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