Weekly Trading Desk Update

CAPRIN
knowledge preserves wealth

@ Caprin_Asset

Media contact: Adam Plotkin aplotkin@caprinbonds.com

September 18, 2015

Trading Desk Commentary

By now most of our readers are aware of the news. Last week the FOMC decided against the reduction of accommodative monetary policy at the much anticipated meeting which began Wednesday and concluded Thursday afternoon. Leading up to Thursday's announcement, benchmark yields increased across the curve highlighted by the 2-yr Treasury, which increased as much as 8 basis points to trade around 0.80% -- it's highest level since Q2 2011. Many pronounced that the Treasury yield increases prior to the FOMC announcement indicated that the market was expecting a Fed hike. The 2-yr Treasury increase was especially telling since the Fed's policy has a more significant impact on shorter-term yields. Global stocks reversed recent dips and showed strength prior to the meeting, suggesting renewed confidence in global markets. This was highlighted by the Shanghai Stock Exchange Composite Index increasing 5% on Wednesday. Here at home, conditions continued to show modest improvement, with the exception being inflation. CPI data once again disappointed, providing ammunition to those suggesting that the Fed would choose not to raise rates in September. As the clock ticked down on Thursday toward the 2:00pm announcement, market anticipation grew with sides taken and bets placed. When the decision was released, the statements were analyzed and dot plot updated, reality set in – back to square one, back to uncertainty. We've seen months of relatively solid employment growth (nonfarm print has averaged 212K YTD) and although one can argue that there is some slack in the labor market, the unemployment rate has continued to tick down to its current rate of 5.4%. And even though inflation is lagging behind the Fed's desired levels and near-term inflation estimates were revised down (to 0.4% from 0.7% this year), Yellen continues to say that the FOMC is quite confident in its 2% inflation forecast over the medium term. We believe had markets not experienced 1) recent global equity volatility and 2) increased uncertainty in the growth prospects of China and emerging markets, the Fed would have been in a strong position to raise rates this week. However, these heightened uncertainties surrounding global growth and corresponding volatility have made their way into the Fed's complex equation. Thus, fearing a premature tightening would further impede global growth and impact its credibility, the Fed, which is running low on accommodative policy tactics (one FOMC member has suggested negative interest rates) has bought itself more time. We believe the probability of an October hike to be low. We read an interesting note from Goldman suggesting that, since there is no press conference scheduled after the October meeting,any announcement of an ad-hoc meeting would essentially tip the market off to the Feds plan. The Fed, which desires the first hike to go as smoothly as possible, would not risk the firestorm that announcement would undoubtedly produce. We also believe that the lack of data hitting the wires between now and the October meeting would not provide the Fed additional clarity to justify a hike. The next meeting therefore is December 16, which could make for an interesting holiday season.

Meanwhile in the world of municipals, muni yields broke away from being range-bound the past couple of weeks and rallied after the Fed decision. Thanks to Friday's bumps to the AAA MMD Index, longer-dated muni's outperformed their Treasury counterparts for the week. The 7-yr, 10-yr and 30-yr AAA MMD rates decreased 9, 9, and 7 basis points, respectively. Secondary activity was non-existent until bidders showed readiness to reach for bonds on Friday. Several large highly-rated GO blocks went away through the AAA MMD scale while other larger blocks traded 5 to 10 basis points tighter than similar trades just a week ago. We feel the primary market is still the best place to find the most value but it seemed that issuers were avoiding potential volatility surrounding the Fed meeting as we witnessed another very light week of primary issuance. Another light calendar will be absorbed by the market this coming week, and we will be monitoring several larger national transactions that we believe will provide value in the parts of the curve we are actively buying.

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	Slightly Shorter Positioning Given Volatiltiy
Intermediate Muni	Min / Max	0 YRS – 17 YRS	Slightly Shorter Positioning Given Volatiltiy
Intermediate Taxable	Min / Max	0 YRS – 12 YRS	Slightly Shorter Positioning Given Volatiltiy
Tactical Muni ETF	Min / Max		Neutral Duration, Overweight to CA
Core Plus ETF	Min / Max		Neutral Duration, Overweight to Treasuries
Tactical Opportunity ETF	Min / Max		Neutral Duration, Overweight Munis

Market Overview

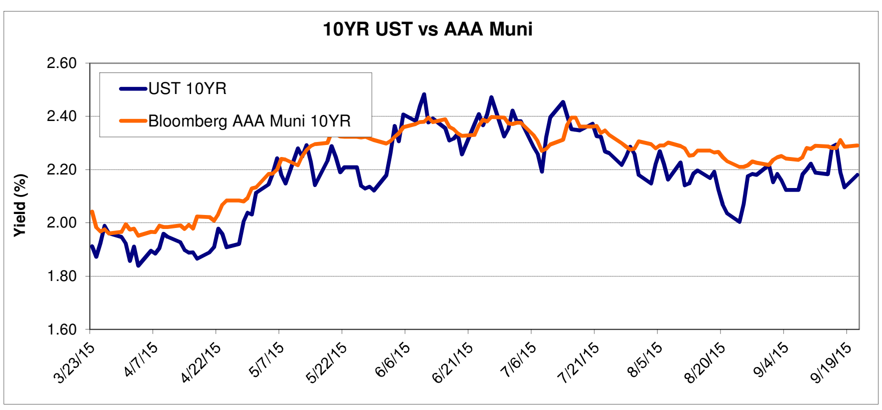
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.58	-0.03	0.61	86%
5 Year	1.39	-0.03	1.42	96%
10 Year	2.14	-0.09	2.23	100%
30 Year	3.13	-0.07	3.20	107%

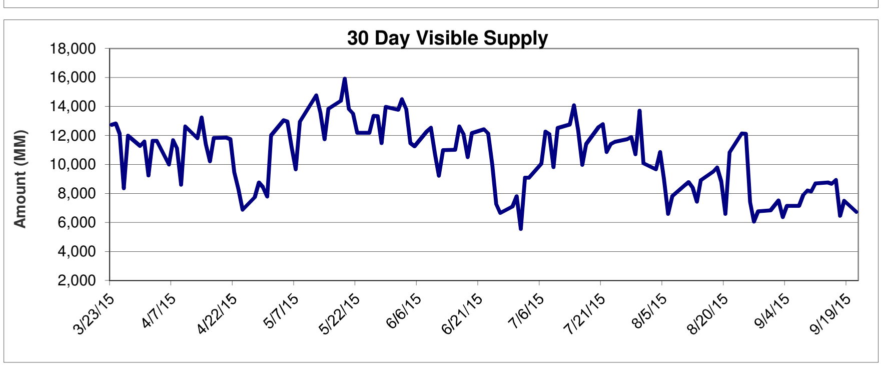
UST Rates			
2 Year	0.68	-0.03	0.71
5 Year	1.44	-0.07	1.51
10 Year	2.13	-0.05	2.19
30 Year	2.94	-0.02	2.95

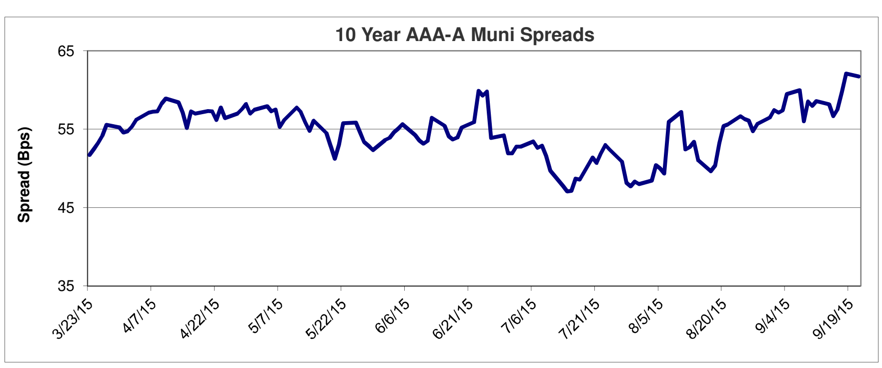
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$4.10	$3.17
Competitive	$1.80	$1.00
TOTAL	**$5.90**	**$4.17**
Municipal 30 Day Visible Supply ($ Bln)	**$7.51**	**$8.70**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.60**	**$14.78**
Bond Buyer 20 Municipal G.O. Index	**3.78%**	**3.82%**

Select Economic Releases

Date	Event	Period	Survey	Prior
9/24	Initial Jobless Claims	19-Sep	274K	264K
9/25	GDP Annualized QoQ	2Q T	3.70%	3.70%
9/25	U. of Mich. Sentiment	Sep F	86.50	85.70
9/24	Durable Goods Orders	Aug	-2.30%	2.00%
9/23	MBA Mortgage Applications	18-Sep	--	-7.00%
9/24	New Home Sales	Aug	515K	507K
9/23	Markit US Manufacturing PMI	Sep P	52.80	53.00
9/21	Existing Home Sales	Aug	5.50M	5.59M
9/25	GDP Price Index	2Q T	2.10%	2.10%
9/24	Durables Ex Transportation	Aug	0.10%	0.60%







Please refer to the second page for explanations of key measures, sources, and disclosure information.

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.