












Trading Desk Commentary

What a few days it turned out to be. This week began with several data releases that did not bode well for economic confidence here at home. November ISM was lower than expected, and manufacturing fell to its lowest level since 2009; however non-manufacturing came in above 50 but was still well below the expected 55 print. On Wednesday, Fed Chair Yellen expressed optimism during hawkish comments to the Economic Club of Washington, all but assuring a December rate hike unless Friday's nonfarm number failed to deliver 200k jobs added - more on that later. But first, the week was highlighted by Thursday's aggressive sell-off in bond markets both domestically and abroad. The sell-off was triggered by extended QE measures out of the Eurozone that were not as accommodative as markets would have liked. Expectations were high after Draghi signaled the bank would act decisively to keep the Eurozone from contracting. Even with a six month extension of the current bond buying program and a reduction in the deposit rate by 10 basis points to -0.3%, markets largely believed Draghi under-delivered after over-promising more robust QE measures. Markets had anticipated the main benchmark rate would be cut and that monthly bond buying purchases would be increased, not merely lengthened. The resulting sell-off was intense. Yields on the bench mark 10-yr and 30-yr treasuries surged 17 basis points in intraday trading, while the yield on the 10-yr German Bund rose over 20 basis points. Bonds were not the only asset class to react to the "lack" of stimulus. The Euro saw its 2nd largest one day increase ever, rising over 4% on Thursday while global stocks were off anywhere from 1% to 3%. The moves were further exacerbated by the recent emphasis on anything central bankers speak about publicly. This phenomenon has pushed global investors into the same crowded trades which lead to choppy, sometimes vicious trading when expected results don't come to fruition. On Friday, Nonfarm payrolls came in stronger than expected (211k vs. 200k consensus) essentially sealing the deal for a December rate hike. However instead of extending the sell-off in treasuries, rates interestingly rallied, paring some of the losses from Friday's sell-off. We believe Friday's rally was simply a correction trade from Thursday's overdone sell-off.

In the municipal space, rates remained resilient vs. their taxable counterparts. The lower primary supply and recent muni inflows (another \$331 million this week) led to tightening earlier in the week until the aggressive treasury sell-off on Thursday proved too resilient and forced muni yields to increase. Current ratios of, 74% in 5-yrs, 87% in 10-yrs, and 97% in 30-yrs are currently hovering around year-to-date lows suggesting muni's are expensive compared to Treasuries. With the next Fed meeting 8 full trading days away, the market is trading as tight as it has all year. Supply appears to be lower than expected over the next several weeks so it will be interesting to see if the market maintains its firmness or gets softer prior to the Fed meeting. On the credit front, Puerto Rico made its December 1 payment this week by clawing back money earmarked for paying debt issued by several public corporations to pay debt service on bonds issued by the Government Development Bank. This legal loophole has bought a few more weeks for Governor Alejandro Garcia Padilla to attempt to successfully negotiate with creditors prior to the next debt service payment date on January 1, 2016. In other Puerto Rico news, on Friday the Supreme Court agreed to hear the island's bid to allow a restructuring of a portion of its debt burden. Puerto Rico passed a law to give certain public corporations, with around \$20 billion in debt, the ability to restructure under bankruptcy, which a lower U.S. court ruled against. The High Court will decide whether that 2014 lower court ruling conflicts with U.S. federal bankruptcy law. We hope everyone had a long and pleasant Thanksgiving weekend and are gearing up for the holiday season.

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			Neutral Positioning Given Global Weakness
Intermediate Taxable			Neutral Positioning Given Global Weakness
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	0.73	0.01	0.72	78%
5 Year	1.27	0.01	1.26	74%
10 Year	2.01	-0.02	2.03	89%
30 Year	2.96	-0.01	2.97	98%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.94	0.02	0.92
5 Year	1.71	0.07	1.64
10 Year	2.27	0.05	2.22
30 Year	3.01	0.01	3.00

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.30	\$4.35
Competitive	\$3.00	\$2.15
TOTAL	\$8.30	\$6.50

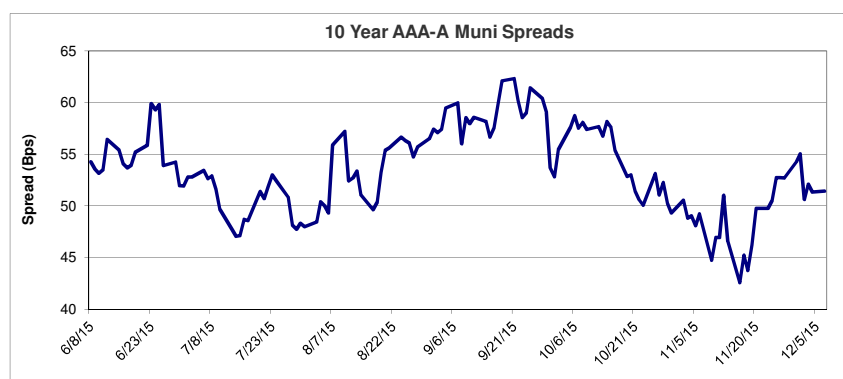
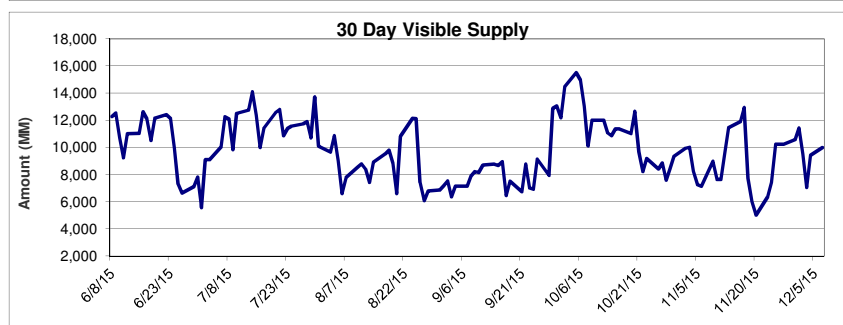
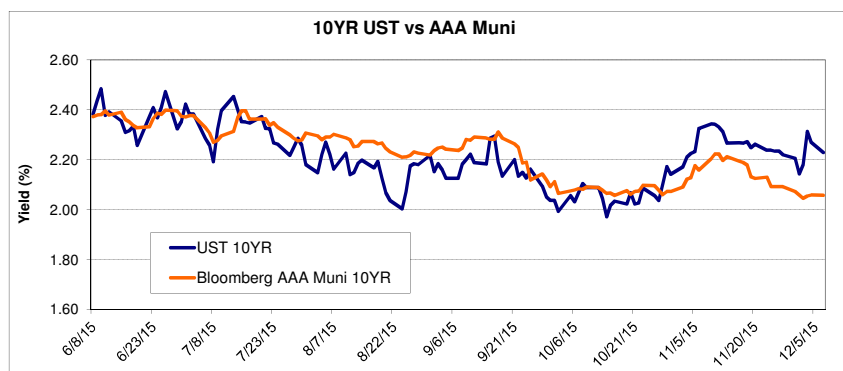
Municipal 30 Day Visible Supply (\$ Bln)	\$9.43	\$10.24
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Bloomberg Muni PICK Offerings (\$ Bln)	\$13.05	\$2.34
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Bond Buyer 20 Municipal G.O. Index	3.08%	3.63%
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Select Economic Releases

Date	Event	Period	Survey	Prior
12/9	MBA Mortgage Applications	4-Dec	--	-0.20%
12/9	Wholesale Inventories MoM	Oct	0.20%	0.50%
12/10	Initial Jobless Claims	5-Dec	270k	269k
12/10	Import Price Index MoM	Nov	-0.80%	-0.50%
12/10	Monthly Budget Statement	Nov	-\$68.0b	--
12/10	Continuing Claims	28-Nov	2155k	2161k
12/11	U. of Mich. Sentiment	Dec P	92.00	91.30
12/11	Retail Sales Advance MoM	Nov	0.30%	0.10%
12/11	PPI Final Demand MoM	Nov	0.00%	-0.40%
12/11	PPI Final Demand YoY	Nov	-1.40%	-1.60%
12/11	PPI Ex Food and Energy MoM	Nov	0.10%	-0.30%



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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