

Trading Desk Commentary

US Treasuries had another interesting session this week with an unforeseen move tighter mostly due to the continued pressure on commodity prices. Oil touched levels market participants haven't seen in over 5 years and closed at the lows. Without repeating too much of what we have been talking about, this is just another prime example of the meek global growth picture. Contrary to fed rhetoric that has led up to the December expected hike meeting, now only a week away, traders and investors are still not convinced that the economy isn't worse off than they are leading the market to believe. Current probability of a fed move based on fed fund futures data compiled by Bloomberg puts the probability at 72%, down from 78% before Friday's big rally. The future of the high yield market has come to the forefront of mass media again as depressed energy prices are wreaking havoc on junk rated paper and speculation of consolidation and defaults are forecasted to be at record levels in 2016. Street firms and asset managers have come out on both sides of the debate with some preaching these levels are extremely opportunistic and others predicting a mass exodus. This is showcased by fund flows and redemptions out of ETF names such as JNK and HYG. The market's sharp negative reaction across all asset classes to depressed commodity prices and weakened global growth outlook has thrown quite a wrench into the Fed's decision on whether or not to raise short term rates as they are now risking one of their most important assets, credibility.

The municipal market continues to show strength through most of the rate volatility on the underwhelming new issue calendar that will close out 2015. Dealers are reluctant to cut inventory and listen to many bids which tells us they continue to see strength in the asset class and it will likely persist. Ratios are at multi year lows across the curve with the 10 and 30 under 100% and the front end in hanging around 70%. What few deals have actually come to market the past few weeks, most all have experienced bumps and healthy oversubscription as investors' appetite for munis has grown, especially for longer dated maturities. The muni credit story continues to be in Puerto Rico as the island is set to miss their January debt payment. There have been several pushes by congress to aid the island with possible bankruptcy protection and/or financial assisted with unallocated funds from the affordable care act. Neither bills have serious potential to pass through both the house and the senate at this time. All eyes will be on the Fed this week so we expect trading volumes to be light and moves exaggerated on light volume. Fasten your seatbelts as there is a 72% chance we begin a new chapter in monetary policy in a few short days.

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
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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	0.75	0.02	0.73	86%
5 Year	1.24	-0.03	1.27	80%
10 Year	1.92	-0.09	2.01	90%
30 Year	2.80	-0.16	2.96	98%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	0.88	-0.06	0.94
5 Year	1.55	-0.15	1.71
10 Year	2.13	-0.14	2.27
30 Year	2.87	-0.14	3.01

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$1.60	\$5.30
Competitive	\$0.62	\$3.00
TOTAL	\$2.22	\$8.30

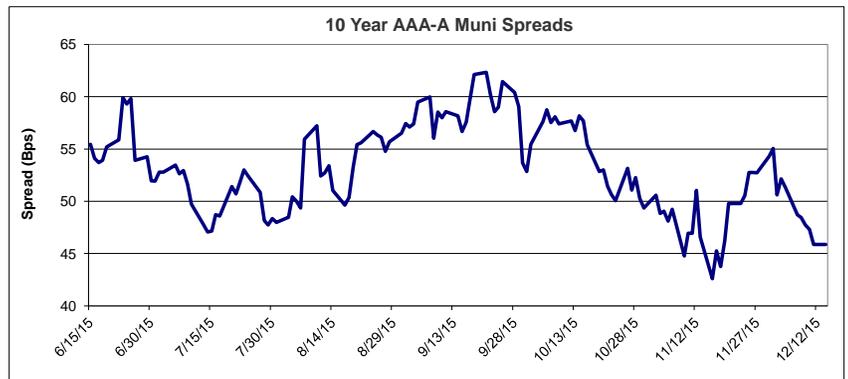
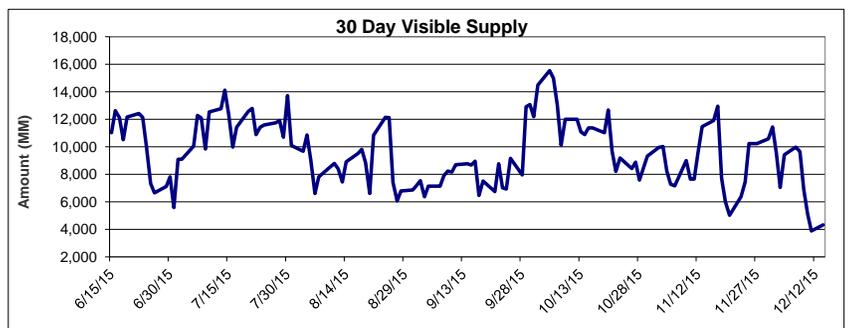
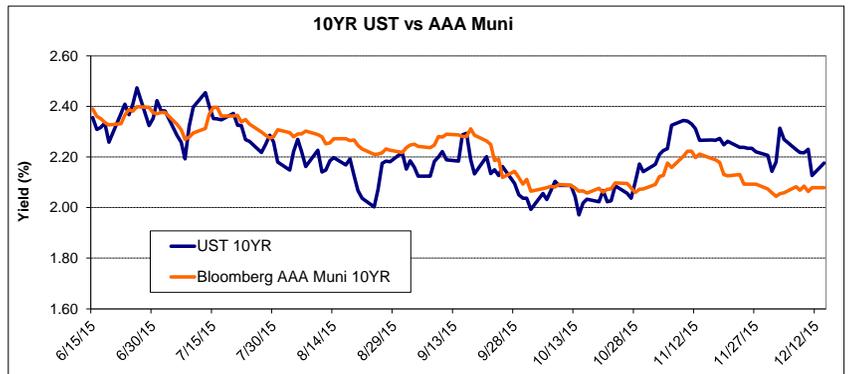
Municipal 30 Day Visible Supply (\$ Bln)	\$3.85	\$9.43
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Bloomberg Muni PICK Offerings (\$ Bln)	\$14.69	\$13.05
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Bond Buyer 20 Municipal G.O. Index	3.57%	3.08%
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Select Economic Releases

Date	Event	Period	Survey	Prior
12/15	CPI MoM	Nov	0.00%	0.20%
12/15	Empire Manufacturing	Dec	-7.00	-10.74
12/15	CPI Ex Food and Energy MoM	Nov	0.20%	0.20%
12/16	FOMC Rate Decision (Upper Bound)	16-Dec	0.50%	0.25%
12/16	MBA Mortgage Applications	11-Dec	--	1.20%
12/16	Markit US Manufacturing PMI	Dec P	52.60	52.80
12/16	Housing Starts	Nov	1135k	1060k
12/16	Industrial Production MoM	Nov	-0.10%	-0.20%
12/17	Initial Jobless Claims	12-Dec	274k	282k
12/17	Leading Index	Nov	0.10%	0.60%
12/17	Philadelphia Fed Business Outlook	Dec	1.00	1.90



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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