








## Trading Desk Commentary

An interesting week in the markets concluded with January's Nonfarm payroll report on Friday, but first, benchmark Treasury rates followed the price of oil lower on Tuesday as crude traded below \$30.00 after rallying most of last week. The yield on the 10-yr Treasury traded as low as 1.84% on Tuesday, while the 30-yr traded as low as 2.65%, the lowest levels for both benchmarks since April of 2015. A weak ISM Manufacturing print on Monday followed by a weak ISM Non-Manufacturing print on Wednesday gave investors additional concern that the U.S. economy remains stuck in neutral, especially after last week's paltry GDP print. The data forced two Fed speakers (Bill Dudley and Lael Brainard) to dovishly acknowledge tighter financial conditions this week and accept that recent economic developments may reinforce the case for very gradual future interest rate increases. On Friday, Nonfarm payrolls for January came in at 151,000 vs. an expected 190,000 and December's NFP was revised lower by 30,000 to 262,000. Bonds rallied on these headline numbers but soon reversed course after traders realized the positive average hourly earnings increase of 0.5%. The year-over-year number is now 2.5%, suggesting employees are now realizing a much-needed increase in pay. Several news outlets dismissed the headline jobs miss and focused solely on the average hourly earnings increase, suggesting the Fed had added ammo to their rate-hike arsenal. However, we remain skeptical that this earnings increase will be the driver of a rate hike in March. We simply don't think that one cherry-picked positive print can offset the continued weakness shown in other data. Today the 10-yr Treasury sits at 1.85%, and we began the year at 2.27%. The 30-year sits at 2.68%, and it began the year above 3.00%. Equities remain confused and are ultimately down approximately 8.0% (S&P) this year. The price of oil continues to trade at multi-year lows, the dollar continues to strengthen, and global headwinds are not slowing down. We could go on with examples of weakness, but forget about a March hike at this point. Fed Funds futures are suggesting the month of December before there is even a better than 50.0% chance of another Fed hike. The Fed waited all of 2015 to raise rates, stalling until the collective data supported it and inflation seemed poised to increase to their targeted 2.0% level. Judging by the current the economic landscape, we may be poised for another year of waiting.

In the municipal space, rates followed Treasury yields lower but ultimately underperformed for the week. We saw several large blocks of high-grade paper trade at very rich levels in the 3-to-5 year part of the curve and believe these are Tier 1 investors reaching for bonds as many money managers are dismissing a March rate hike and are looking for front-end paper. Muni inflows continue to demonstrate strong demand for tax-exempts, as we are waiting for the elevated visible supply to hit the primary market. After a slower than average January, we believe some built-up supply is about to be unleashed as the visible supply has been inching toward \$12 billion. Dealers caught on, and we saw an increase in large blocks being traded inter-dealer, freeing up capital to take on the new primary supply. We took advantage of several blocks of bonds where prices were being cut (to be moved) while the broad muni indexes were being bumped. On the credit front, the Chicago Board of Education was able to access the market after being pulled last week. The BOE (B+/B+) priced \$725 million in two term bonds with a 2044 final. The 2044 term bond was priced at a discount – a 7.00% coupon to yield 8.50%, which equated to a spread of 580 basis points over the AAA MMD Index - ouch! We hope everyone enjoys the big game this Sunday.

## 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	Neutral Positioning Given Global Weakness
Intermediate Taxable		0 YRS - 12 YRS	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, Neutral Munis to Taxables

## Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.57	-0.09	0.66	79%
5 Year	0.89	-0.11	1.00	72%
10 Year	1.66	-0.05	1.71	90%
30 Year	2.72	-0.03	2.75	102%

UST Rates			
2 Year	0.72	-0.05	0.77
5 Year	1.24	-0.09	1.33
10 Year	1.84	-0.08	1.92
30 Year	2.67	-0.07	2.74

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$4.50	\$2.70
Competitive	\$2.80	\$1.35
<b>TOTAL</b>	<b>\$7.30</b>	<b>\$4.05</b>

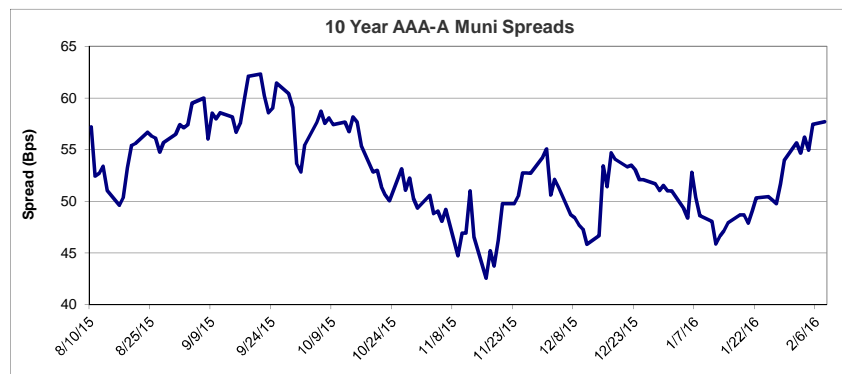
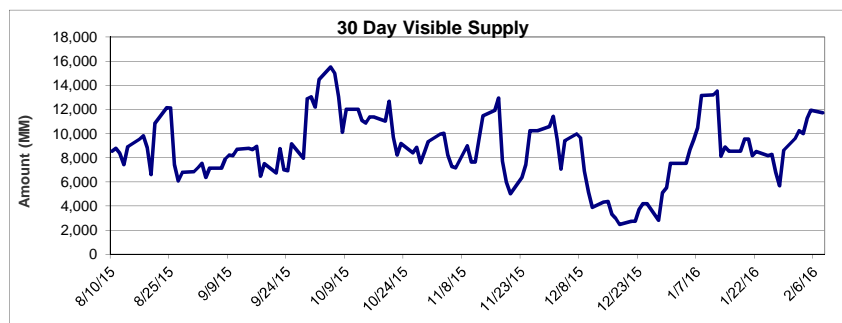
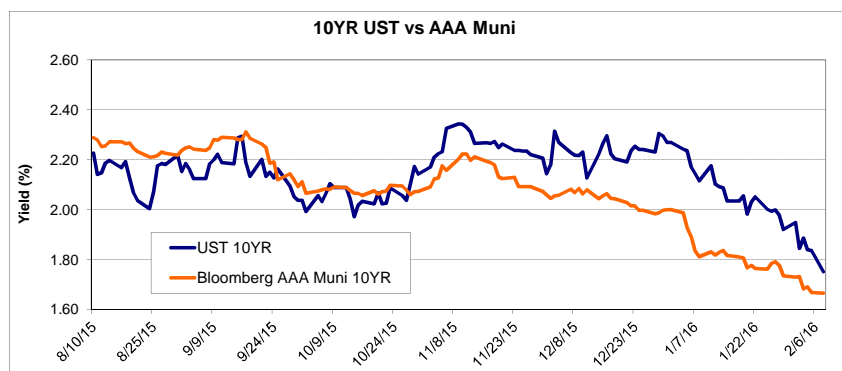
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$11.92</b>	<b>\$8.61</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$4.27</b>	<b>\$3.50</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.30%</b>	<b>3.38%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
2/9	Wholesale Inventories MoM	Dec	-0.20%	-0.30%
2/9	NFIB Small Business Optimism	Jan	94.50	95.20
2/10	MBA Mortgage Applications	5-Feb	--	-2.60%
2/10	Monthly Budget Statement	Jan	\$42.5b	-\$17.5b
2/11	Initial Jobless Claims	6-Feb	280k	285k
2/11	Continuing Claims	30-Jan	2245k	2255k
2/11	Bloomberg Consumer Comfort	7-Feb	--	44.20
2/12	U. of Mich. Sentiment	Feb P	92.40	92.00
2/12	Retail Sales Advance MoM	Jan	0.10%	-0.10%
2/12	Import Price Index MoM	Jan	-1.50%	-1.20%
2/12	Retail Sales Ex Auto MoM	Jan	0.00%	-0.10%



**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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