








## Trading Desk Commentary

After a head fake of higher US rates to begin the week, the treasury curve closed the session mildly tighter on the heels of a benign Fed statement and a softer than anticipated GDP print. Even with a June rate hike still conveyed as a possibility by the FOMC, traders are calling that bluff only pricing in a 12% chance that it happens as of Friday's close. This disconnect is a clear representation that investors do not want to do the Fed's work for them, as they did in 2015, if the fundamentals don't support further growth and inflation. The BOJ also surprised global financial markets by not delivering anticipated stimulus to Japan's economy and continuing to stay true to the negative interest rate path as the most effective monetary policy tool at their disposal.

Municipals remained firm through another week of heavy supply. New issue loans in the primary space are continuing to see healthy bumps to their respective scales and oversubscription. Of note, primary deals coming through the competitive bidding process have been pricing slightly tighter than their negotiated counterparts. We may be reaching an inflection point as muni-to-treasury ratios are at notably suppressed levels, and it seems that dealers are potentially changing their tune to be a little better seller of munis versus the aggressive bidders they have been of late. These factors, in addition to the persistent saturation of inflows into the space showcased by fund flows, continue to be the performance drivers in tax exempts. Jumping to muni credit headlines, Puerto Rico Gov Padilla announced Sunday that the Governmental Development Bank will default on a \$422M interest payment. This significantly intensifies the pressure for debt restructuring negotiations and congress to act with more haste as the default contagion deepens. This action by the PR government sets a precedent and portrays their willingness to protect and provide for their citizens at the expense of creditors. As mentioned in previous pieces, we expect financial market volatility to persist around economic releases and a data driven Fed, but are unconvinced by lackluster growth and don't see a near term situation that drives rates meaningfully higher.

## 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	0.65	0.01	0.64	83%
5 Year	0.99	-0.01	1.00	77%
10 Year	1.62	-0.03	1.65	88%
30 Year	2.58	-0.02	2.60	96%

UST Rates		
2 Year	0.78	-0.04
5 Year	1.29	-0.06
10 Year	1.83	-0.05
30 Year	2.68	-0.03

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$6.39	\$6.29
Competitive	\$1.67	\$1.70
<b>TOTAL</b>	<b>\$8.06</b>	<b>\$7.99</b>

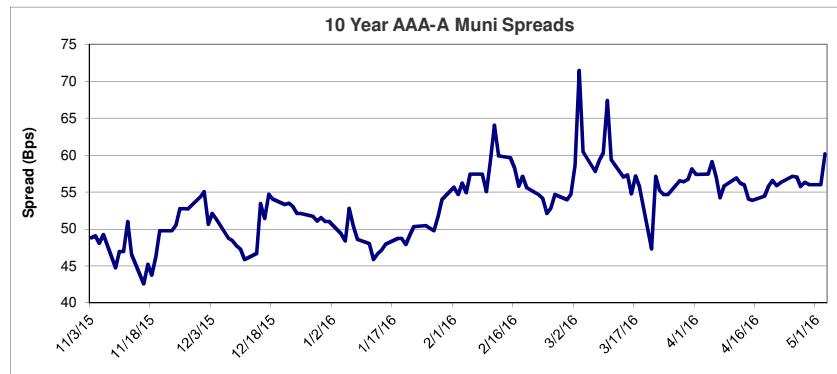
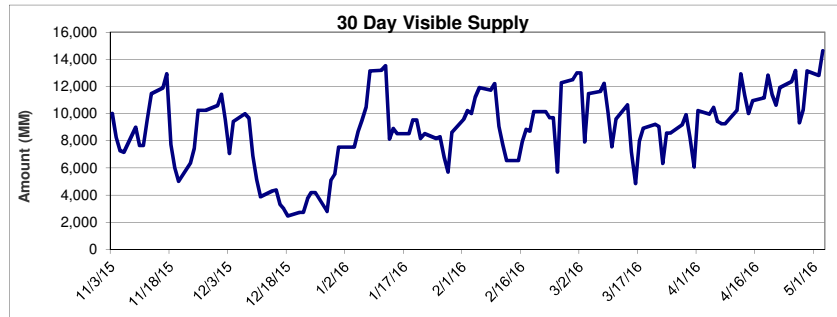
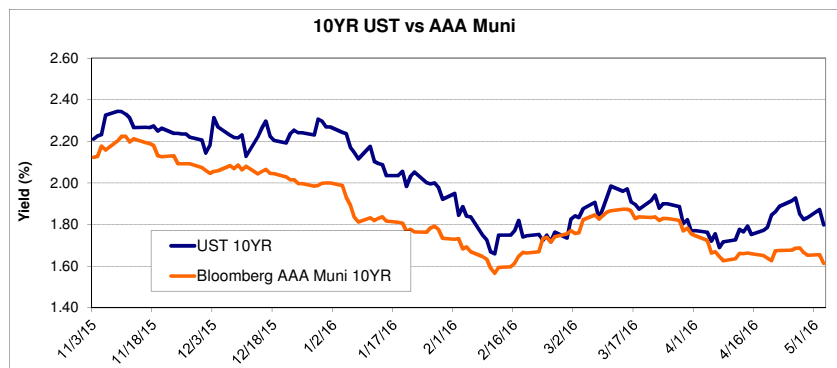
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$13.15</b>	<b>\$11.92</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$16.88</b>	<b>\$15.81</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.32%</b>	<b>3.28%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
5/2	ISM Manufacturing	Apr	51.4	51.8
5/2	Markit US Manufacturing PMI	Apr F	50.8	50.8
5/2	Construction Spending MoM	Mar	0.50%	-0.50%
5/4	Durable Goods Orders	Mar F	0.80%	0.80%
5/4	MBA Mortgage Applications	29-Apr	--	-4.10%
5/4	Factory Orders	Mar	0.60%	-1.70%
5/4	Trade Balance	Mar	-\$41.1b	-\$47.1b
5/4	ADP Employment Change	Apr	195k	200k
5/5	Initial Jobless Claims	30-Apr	260k	257k
5/6	Change in Nonfarm Payrolls	Apr	200k	215k
5/6	Unemployment Rate	Apr	4.90%	5.00%



**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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