
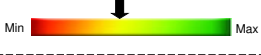







Trading Desk Commentary

The Treasury market traded higher this past week, triggered by a much weaker than expected ADP Employment Change (156k vs. 195k survey) print on Tuesday; the rally intensified leading up to Friday's Nonfarm payrolls report. The Nonfarm report has become one of the most important and market-moving releases outside of Fed announcements, and we thought the rally leading up Friday's report was the market anticipating a weaker than forecasted print. Payrolls ended up increasing by 160,000 in April, far below the consensus forecast of 200,000. Treasuries rallied soon after the release but settled down and actually sold-off during Friday's session, a sign that our assumption the market expected the weaker print was accurate. However, a deeper dive into the full release revealed some positive news. Average hourly earnings increased 0.3% during April, pushing the year-over-year increase to 2.5%. While good, it's not enough to offset the lowest nonfarm print in 7 months. The pace of job creation has slowed substantially in 2016; gains have averaged 192,000 per month so far this year and are down from 2015's 229,000 average. The slowdown in hiring comes as concerns over global financial conditions are becoming more ingrained in daily news headlines here at home. Deflation is a lingering threat in Europe. A looming and market-moving Brexit vote will take place next month. Oil's price rally seems to be losing steam thanks in part to a strengthening dollar. And, no one really knows the actual shape the Chinese economy is in, although recent reports reveal that Chinese total debt as a % of GDP is 240%, which is concerning to say the least. It's enough to make your head hurt. Couple the weak jobs report with just the few global concerns we previously mentioned, and you have to wonder how the Fed could possibly raise rates at the June meeting especially since other recent economic releases have been, for the most part, lackluster. The market appears to agree with our thinking with Fed Fund futures now pointing to the probability of a hike in June to be only 4%, down from 20% just two weeks ago. The first meeting with a greater than 50% of a hike is now February 2017 at 51%. Though FedSpeak maintains multiple rate hikes this year, we remain unconvinced.

In the municipal space, Puerto Rico made it official. The island officially defaulted on \$422 million of Government Development Bank bonds. The market largely dismissed the event; as we have stated in the space before, the majority of Puerto Rico bonds are now in the hands of the high yield and hedge funds. Discussions regarding a complete restructuring are ongoing. Continued fund inflows into muni's is making the primary market quite crowded. The majority of primary deals we have participated in have been heavily oversubscribed and received bumps to their scales. A transaction for the Pratt Institute in New York last week saw bumps as much as 7 to 9 basis points to its scale. Finding value in the secondary market presents challenges of its own as dealers are reluctant to make any concessions in this seller's environment. Any adjustments in price appear to only be up, and dealers are willing to sit on inventory in situations where yields have risen over a period of a few days. Visible supply remains elevated, so we believe at some point a prolonged increase in supply will alleviate some of the pressure around receiving allotments in the primary and subsequently force secondary dealers to adjust prices to move bonds. Time will tell.

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	0.64	-0.01	0.65	87%
5 Year	0.95	-0.04	0.99	77%
10 Year	1.57	-0.05	1.62	88%
30 Year	2.49	-0.09	2.58	95%

UST Rates			
2 Year	0.73	-0.05	0.78
5 Year	1.23	-0.07	1.29
10 Year	1.78	-0.05	1.83
30 Year	2.63	-0.05	2.68

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.20	\$6.39
Competitive	\$1.90	\$1.67
TOTAL	\$8.10	\$8.06

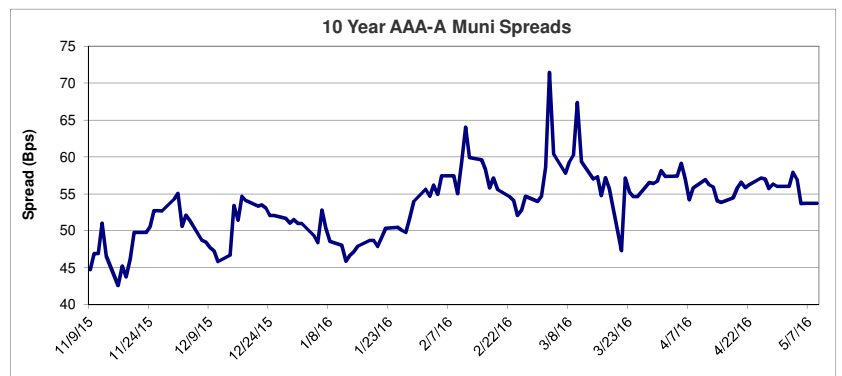
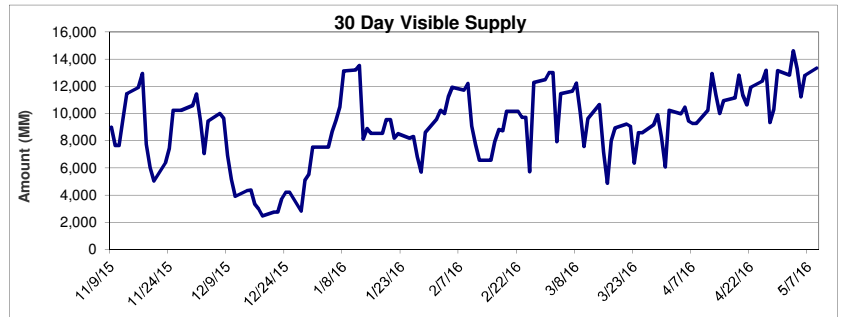
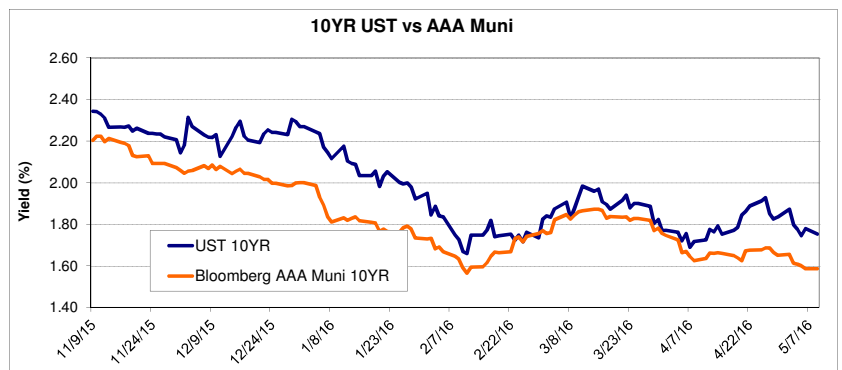
Municipal 30 Day Visible Supply (\$ Bln)	\$12.79	\$13.15
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Bloomberg Muni PICK Offerings (\$ Bln)	\$16.39	\$16.88
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Bond Buyer 20 Municipal G.O. Index	3.32%	3.32%
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Select Economic Releases

Date	Event	Period	Survey	Prior
5/10	Wholesale Inventories MoM	Mar	0.10%	-0.50%
5/11	MBA Mortgage Applications	6-May	--	-3.40%
5/11	Monthly Budget Statement	Apr	\$105.0b	\$156.7b
5/12	Initial Jobless Claims	7-May	270k	274k
5/12	Import Price Index MoM	Apr	0.60%	0.20%
5/12	Continuing Claims	30-Apr	2120k	2121k
5/13	U. of Mich. Sentiment	May P	89.5	89.0
5/13	Retail Sales Advance MoM	Apr	0.80%	-0.30%
5/13	PPI Final Demand MoM	Apr	0.30%	-0.10%
5/13	PPI Final Demand YoY	Apr	0.20%	-0.10%
5/13	PPI Ex Food and Energy MoM	Apr	0.10%	-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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