








Trading Desk Commentary

The Treasury market sold off the equivalent of 6 to 8 basis points across the curve following Friday's stronger than expected Nonfarm payroll report. Jobs grew by 255k vs. an expected 180k, a strong report following June's upside surprise of 292k (revised) jobs added. It was, however, not as big of a sell-off as we expected, considering stocks hit year-to-date highs following the news. So why did the bond market dig its heels in and resist a greater sell-off? Two consecutive stronger-than-expected job numbers should trigger a greater risk-on trade, shouldn't it? Some market participants and the talking heads on T.V. overplay the importance of the nonfarm number; although it is the first major piece of economic news each month to trade on, it's still just one piece of the puzzle. We've had two months of strong job growth, but remember the 11k (revised) job print in May? That was just 60 days ago. We think the bond market is taking a wait-and-see approach and pausing to see if we can string together 3 or 4 strong months of job growth accompanied by additional data (Retail Sales, PPI, etc...) to validate that we've turned the corner. The probability of a Fed rate hike increased, but not substantially. Fed Fund futures, post-nonfarm print, place the probability of a September rate hike at 26%, up from 18% before the release. In other economic news, the Bank of England cut its benchmark lending rate by 25 basis points to yield 0.25%, its first reduction to the benchmark rate since 2009. The BOE also expanded its QE measures in order to soften the blow expected from the U.K.'s decision to leave the European Union. It also reduced the economy's growth forecast for 2017 citing a materially weakened outlook for future growth. Although the decision was largely expected, Mark Carney hinted at the possibility of further stimulus - including an additional rate cut should conditions warrant. The statement opened the door for the U.K. to be the next country to adopt a negative interest rate policy. If so, it would be another deterrent to a Fed anxious to raise interest rates here at home.

Municipal's followed treasury yields higher over the course of week, but demand remained strong, especially in the primary market. Over \$13 billion priced with ease for the week, and most transactions saw bumps to their scales after heavy oversubscription. For example, a \$218 million loan for Auburn University was bumped as much as 12 basis points in the 5-year part of the structure as the deal was as much as 15x over-subscribed. The demand stemmed from another week of muni fund inflows with \$700 million flowing into the muni space. A large percentage of the inflows went into long-term funds as investors continue to migrate farther out the curve in search of yield. However, the curve remains historically flat, as indicated by the spread between the 2-yr MMD and 30-yr MMD, which currently sits at a paltry 165 basis points. This week the calendar gets smaller with about \$8 billion coming to the market. The supply is dominated by \$1.2 billion for the Commonwealth of Pennsylvania and a \$1.1 billion transaction for the Regents of the University of California. Pennsylvania will get the majority of the market's attention leaving some smaller specialty-state transactions over-looked and potentially cheap.

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 | 0.52 | 0.00 | 0.52 | 72% |
| 5 Year | 0.87 | 0.02 | 0.85 | 77% |
| 10 Year | 1.45 | 0.03 | 1.42 | 91% |
| 30 Year | 2.18 | 0.05 | 2.13 | 94% |

| UST Rates | | | |
|-----------|------|------|------|
| 2 Year | 0.72 | 0.07 | 0.66 |
| 5 Year | 1.14 | 0.11 | 1.02 |
| 10 Year | 1.59 | 0.14 | 1.45 |
| 30 Year | 2.31 | 0.13 | 2.18 |

| | Current Wk | Prior Wk |
|---|---------------|----------------|
| Weekly Municipal Supply (\$ Bln) | | |
| Negotiated | \$5.70 | \$7.73 |
| Competitive | \$2.00 | \$2.75 |
| TOTAL | \$7.70 | \$10.48 |

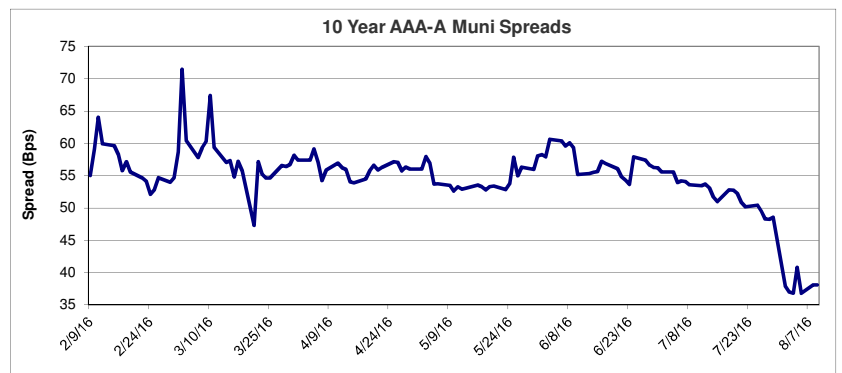
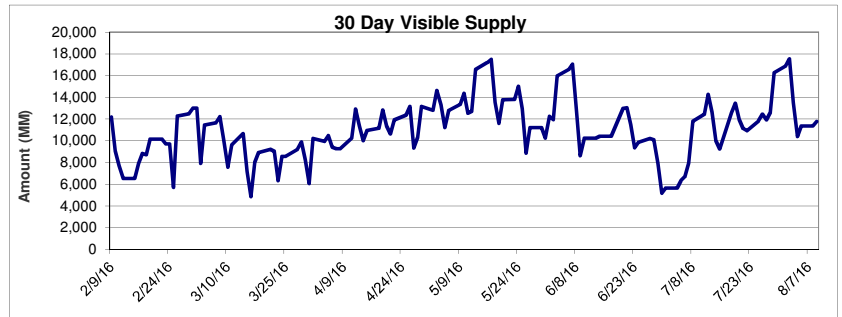
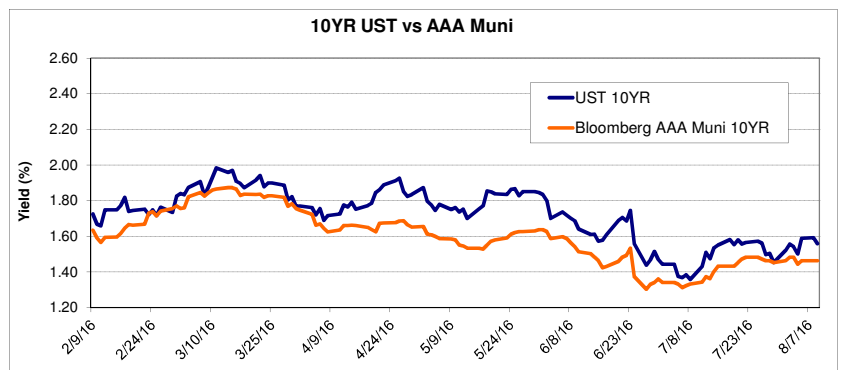
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|---|----------------|----------------|
| Municipal 30 Day Visible Supply (\$ Bln) | \$11.38 | \$16.25 |
|---|----------------|----------------|

| | | |
|---|----------------|----------------|
| Bloomberg Muni PICK Offerings (\$ Bln) | \$15.25 | \$12.86 |
|---|----------------|----------------|

| | | |
|---|--------------|--------------|
| Bond Buyer 20 Municipal G.O. Index | 2.85% | 2.85% |
|---|--------------|--------------|

Select Economic Releases

| Date | Event | Period | Survey | Prior |
|------|----------------------------|--------|-----------|-----------|
| 8/9 | Wholesale Inventories MoM | Jun | 0.00% | 0.10% |
| 8/10 | MBA Mortgage Applications | 5-Aug | -- | -3.50% |
| 8/10 | Monthly Budget Statement | Jul | -\$115.0b | -\$149.2b |
| 8/11 | Initial Jobless Claims | 6-Aug | 265k | 269k |
| 8/11 | Import Price Index MoM | Jul | -0.40% | 0.20% |
| 8/11 | Continuing Claims | 30-Jul | 2133k | 2138k |
| 8/12 | U. of Mich. Sentiment | Aug P | 91.5 | 90 |
| 8/12 | Retail Sales Advance MoM | Jul | 0.40% | 0.60% |
| 8/12 | PPI Final Demand MoM | Jul | 0.10% | 0.50% |
| 8/12 | PPI Final Demand YoY | Jul | 0.30% | 0.30% |
| 8/12 | PPI Ex Food and Energy MoM | Jul | 0.20% | 0.40% |



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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