












Trading Desk Commentary

Treasuries continued to weaken across the curve during the holiday shortened week mainly on the notion that higher rates are looming come December. The release of FOMC minutes on Wednesday did not provide any surprises and largely supported the view that the Fed Chair held the final say over the two distinct camps within the Fed. The front-end of the curve did firm up slightly after Yellen suggested, during a prepared speech Friday, that running the economy hotter for longer could help strengthen economic conditions here at home. However, the rally was shallow, and eventually retreated back to levels prior to the speech while the mid-and long-end of the curve continued to soften. The Fed insists that each meeting going forward is live but no one expects it to move in November with the presidential election a mere six days afterwards. So, December is it and markets largely agree. Fed Fund futures point to a 64% chance of a hike in December vs. a mere 17% chance in November. It is hard to argue the futures market has been a better guide at projecting rate hikes than the Fed itself but projections can change quickly. With a market moving election (think Brexit) a little over 20 days away and almost two months until the Fed's December meeting, ample time remains for many things to change.

As the Treasury market weakened last week, so did munis. Yields on the AAA MMD Index rose across the curve led by the 30-yr, which increased 11 basis points. The heavy supply is putting pressure on the market the same time muni fund inflows appear to be waning. Although munis received their 53rd consecutive week of inflows, the volume is down substantially. Long-term funds realized their first week of outflows in over a year while money left the high-yield space for the second week in a row. The market is on pace to easily surpass the \$400 billion level and should supply stay elevated through December, we could reach a record. Visible supply remains elevated with over \$20 billion set to come to the market in the next 30 days and we expect the muni market to continue to experience temporary weakness as the supply glut get placed. As we have mentioned before, the increased supply is being largely driven by a rush to access the market at historical low rates prior to potential volatility around the election and a presumed rate in December. Supply should taper off heading into the holiday season and a more normal issuance environment will follow. The temporary weakness, in our view, presents a good opportunity for investors and we will focus this week on another massive calendar. Close to \$16 billion is scheduled to price this week over a diverse set of names both nationally and within our core states. We will look to target select transactions which may be forced to cheapen because of the elevated supply without sacrificing credit quality and duration.

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, Overweight to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.88	0.00	0.88	105%
5 Year	1.13	0.01	1.12	88%
10 Year	1.71	0.04	1.67	95%
30 Year	2.56	0.06	2.50	101%

UST Rates

2 Year	0.83	0.00	0.83
5 Year	1.29	0.03	1.26
10 Year	1.80	0.08	1.72
30 Year	2.53	0.08	2.45

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$9.77	\$7.49
Competitive	\$4.38	\$0.82
TOTAL	\$14.15	\$8.31

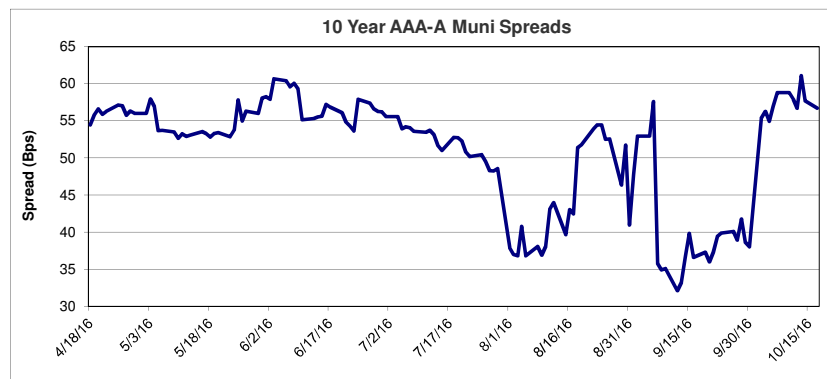
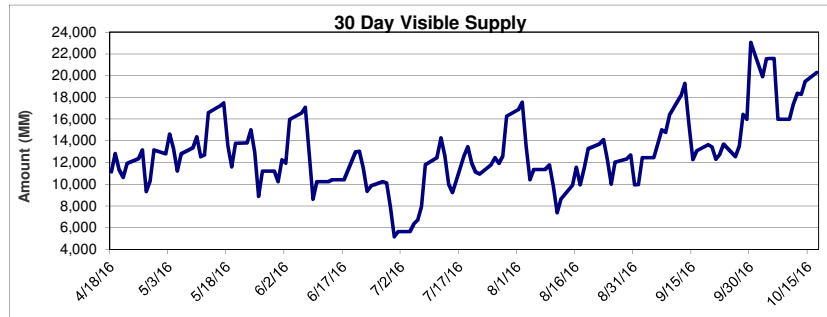
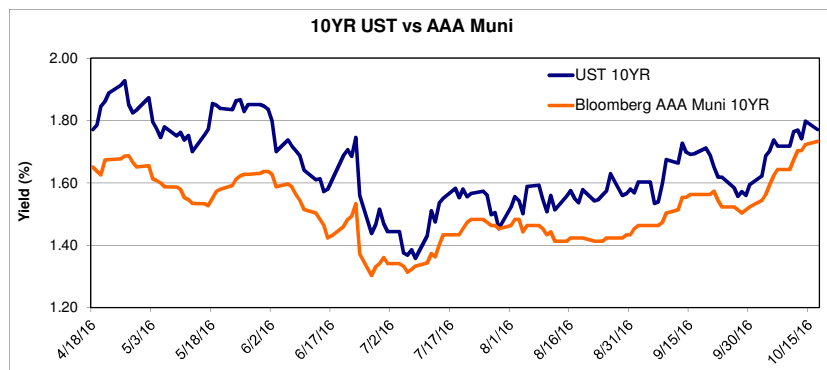
Municipal 30 Day Visible Supply (\$ Bln)	\$19.47	\$15.99
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Bloomberg Muni PICK Offerings (\$ Bln)	\$18.51	\$20.16
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Bond Buyer 20 Municipal G.O. Index	3.28%	3.20%
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Select Economic Releases

Date	Event	Period	Survey	Prior
10/17	Industrial Production MoM	Sep	0.10%	-0.40%
10/17	Empire Manufacturing	Oct	1	-2
10/18	CPI MoM	Sep	0.30%	0.20%
10/18	CPI Ex Food and Energy MoM	Sep	0.20%	0.30%
10/18	Net Long-term TIC Flows	Aug	--	\$103.9b
10/19	MBA Mortgage Applications	14-Oct	--	-6.00%
10/19	Housing Starts	Sep	1175k	1142k
10/20	Initial Jobless Claims	15-Oct	250k	246k
10/20	Existing Home Sales	Sep	5.35m	5.33m
10/20	Leading Index	Sep	0.20%	-0.20%
10/20	Philadelphia Fed Business Outlook	Oct	6	12.8



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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