












Trading Desk Commentary

The bond market continued to weaken last week, resulting in higher yields across the curve. Moves higher were led by the middle and long-end of the curve as the 10-year and 30-year were higher by 11 and 13 basis points, respectively. Economic data here at home continued to post largely on top of expectations or slightly better, further supporting recent Fed speak, which continues to hint at a December rate hike. On Thursday, U.K. GDP surprised to the upside suggesting the potential blow from Brexit could be economically softer than expected. On Friday, Q3 GDP here at home also surprised to the upside coming in at 2.9% vs. an expected 2.6% increase, the largest quarterly increase in two years. The increase was largely attributed to an unexpected and massive jump in soybean exports to China. We'll take growth where we can get it, but the preference would be for growth to come from a jump in business fixed investment and not something that we can assume is a one-time event. Even more concerning is that personal consumption, the recent backbone of GDP growth, was down significantly from Q2, increasing only 2.1% vs. 4.3% last quarter. This week will be a busy one as we get announcements from the BOJ, the BOE and the Fed on Wednesday. This Fed meeting has turned into one of the most uneventful meetings in recent memory due to the lack of news headlines. Perhaps everyone's attention has shifted toward the bizarre twists and turns of this year's presidential election, which is now thankfully in its final full week.

Turning to the municipal market, munis outperformed Treasuries on the week even in face of elevated supply. The weekly supply did decrease when Alaska decided to scrap their \$2.3 billion Pension Obligation Bond transaction over increasing political backlash against the deal. However, supply was still robust (over \$13 billion) and was placed with relative ease as money came back into the muni space after leaving for the first time in a year last week. The New Jersey Transportation Trust fund issued \$2.5 billion of bonds last week with huge oversubscription, resulting in bumps by as much as 10 basis points to the original scale, and bonds continued to trade stronger once free to trade. A LifeBridge Health transaction in Maryland also saw bumps to its original scale after being oversubscribed more the 6 times in several maturities. This week the calendar is smaller, coinciding with a drop in 30-day visible supply. With potential volatility surrounding next week's election and Thanksgiving about three weeks away, we think supply should continue to shrink and demand to remain elevated making muni's attractive over the near-term.

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 | 0.84 | -0.01 | 0.85 | 99% |
| 5 Year | 1.14 | 0.02 | 1.12 | 86% |
| 10 Year | 1.74 | 0.02 | 1.72 | 94% |
| 30 Year | 2.57 | 0.03 | 2.54 | 98% |

| UST Rates | | | |
|-----------|------|------|------|
| 2 Year | 0.85 | 0.03 | 0.82 |
| 5 Year | 1.32 | 0.08 | 1.24 |
| 10 Year | 1.85 | 0.11 | 1.73 |
| 30 Year | 2.62 | 0.13 | 2.48 |

| | Current Wk | Prior Wk |
|---|---------------|----------------|
| Weekly Municipal Supply (\$ Bln) | | |
| Negotiated | \$6.73 | \$11.06 |
| Competitive | \$1.75 | \$2.76 |
| TOTAL | \$8.48 | \$13.82 |

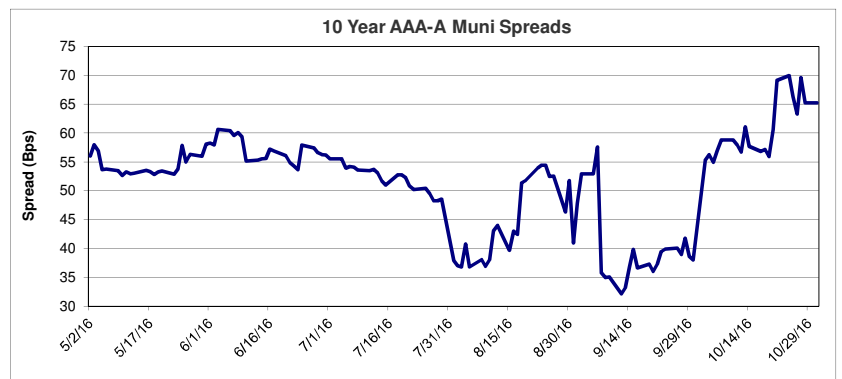
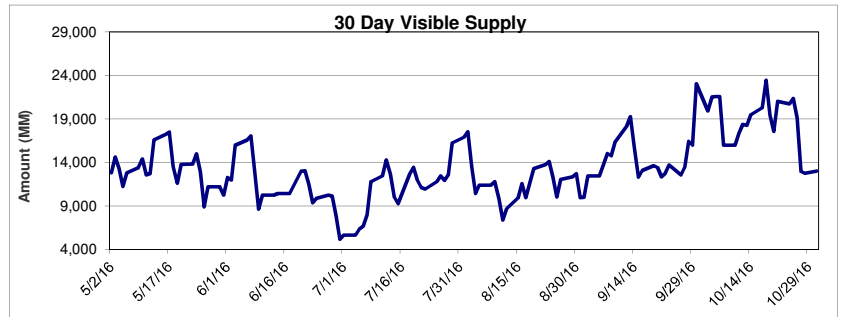
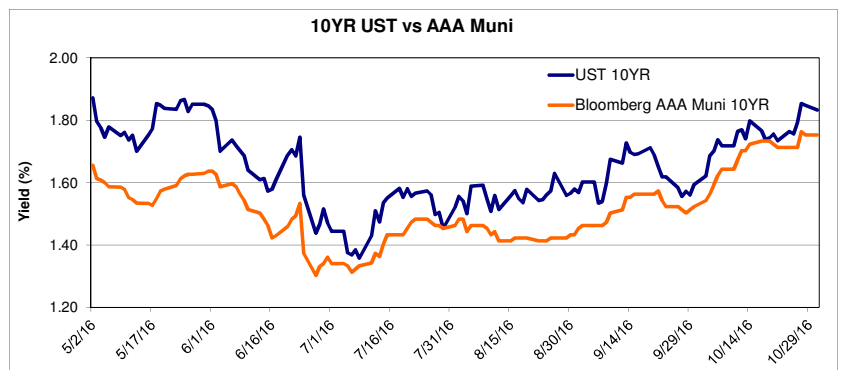
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|---|----------------|----------------|
| Municipal 30 Day Visible Supply (\$ Bln) | \$12.76 | \$21.02 |
|---|----------------|----------------|

| | | |
|---|----------------|----------------|
| Bloomberg Muni PICK Offerings (\$ Bln) | \$17.58 | \$20.16 |
|---|----------------|----------------|

| | | |
|---|--------------|--------------|
| Bond Buyer 20 Municipal G.O. Index | 3.32% | 3.28% |
|---|--------------|--------------|

Select Economic Releases

| Date | Event | Period | Survey | Prior |
|-------|------------------------------------|--------|--------|--------|
| 10/31 | PCE Deflator MoM | Sep | 0.20% | 0.10% |
| 10/31 | Real Personal Spending | Sep | 0.20% | -0.10% |
| 11/1 | ISM New Orders | Oct | -- | 55.1 |
| 11/2 | ISM New York | Oct | -- | 49.6 |
| 11/2 | FOMC Rate Decision (Lower Bound) | 2-Nov | 0.25% | 0.25% |
| 11/3 | Factory Orders Ex Trans | Sep | -- | 0.00% |
| 11/4 | Two-Month Payroll Net Revision | Oct | -- | -7k |
| 11/4 | Labor Force Participation Rate | Oct | -- | 62.90% |
| 11/4 | Underemployment Rate | Oct | -- | 9.70% |
| 11/4 | Change in Household Employment | Oct | -- | 354 |
| 11/7 | Labor Market Conditions Index Chan | Oct | -- | -2.2 |



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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