








Trading Desk Commentary

The major storyline last week was the much anticipated policy statement out of the ECB. The bank left interest rates unchanged while ratifying their QE program by extending purchases to at least December 2017. The bank also reduced the purchased amount by 20 billion euros to 60 billion per month from 80 billion per month beginning April 2017. Even though Draghi refused to call the move a taper, interest rates largely drifted higher after the reduction in purchases was announced. Economic growth in the Eurozone recently has showed signs of strength in the face of Brexit and uncertainty surrounding Italy's financial strength on the heels of Prime Minister Matteo Renzi's resignation following his failed constitutional referendum. The Eurozone composite PMI accelerated to an 11-month high in November signaling a faster rate of business growth so far this year, while job creation is at one of its highest rates in the past 5 years. However, Draghi's press conference after the announcement was noticeably dovish, and the decision still provides the ECB ample flexibility to increase QE measures should the outlook become less favorable or if the path of expected inflation begins to slow. For the U.S. it was a relatively slow week in the fixed space last week as trader's attention largely turned to this Wednesday's Fed meeting. Although a 25 basis point increase has been fully priced in at this point, the updated release of the Fed's forward guidance could be the driver of any significant move in rates should we get a surprise at the press conference following the rate decision. We don't expect the 2017 outlook to deviate substantially from current outlooks, but 2018 and 2019, as well as, longer run inflation expectations could be adjusted higher following the market's reaction to President Elect Trump's victory.

Munis significantly outperformed Treasuries over the course of the week. Yields on the AAA MMD Index decreased as much as 23 basis points in the intermediate to long portions of the curve. The outperformance was primarily driven by crossover buyers who enter the muni space when muni/treasury ratios surge, and surge they did during following November's overdone sell-off. Entering last week, ratios in the 2-yr, 10-yr and 30-yr space were 108%, 105%, and 108% respectively. Year-to-date averages in those same spots are 87%, 93%, and 97%, respectively. We expect ratios will return to levels more consistent with their year-to-date averages early this week as the market should firm up heading into a light calendar over the next couple of holiday-shortened weeks. Even in the face of another week of heavy outflows, the muni market remains constructive, and many buyers (notably the crossover accounts) are noticing the current value of munis. Barring a hawkish surprise from the Fed this week, we think munis will remain 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	Maintain Conservative Maturity Positioning
Intermediate Taxable		0 YRS - 12 YRS	Overweight to High Grade Corporates
Tactical Muni ETF			Slightly Shorter, Focus on Extension Risk
Core Plus ETF			Slightly Shorter, Slight Credit Overweight
Tactical Opportunity ETF			Slightly Shorter, Neutral Muni to Taxables

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	1.14	-0.07	1.21	101%
5 Year	1.74	-0.17	1.91	92%
10 Year	2.31	-0.23	2.54	94%
30 Year	3.12	-0.22	3.34	99%

UST Rates			
2 Year	1.13	0.01	1.12
5 Year	1.89	0.06	1.84
10 Year	2.47	0.11	2.36
30 Year	3.15	0.15	3.00

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.09	\$7.60
Competitive	\$0.75	\$2.50
TOTAL	\$3.84	\$10.10

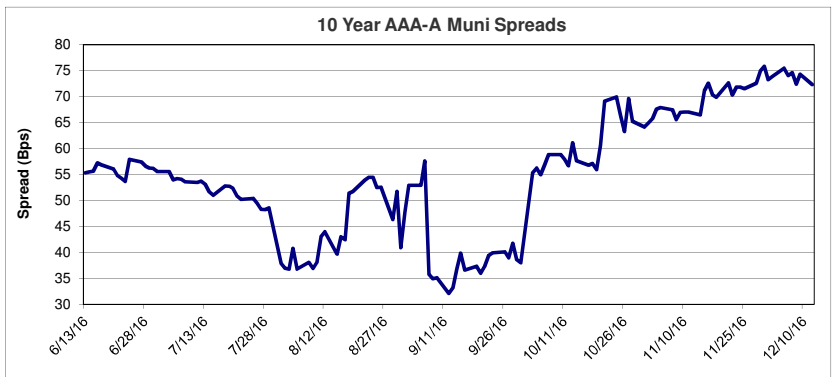
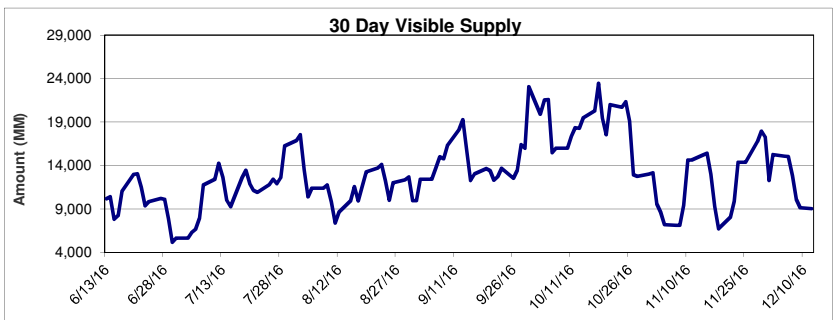
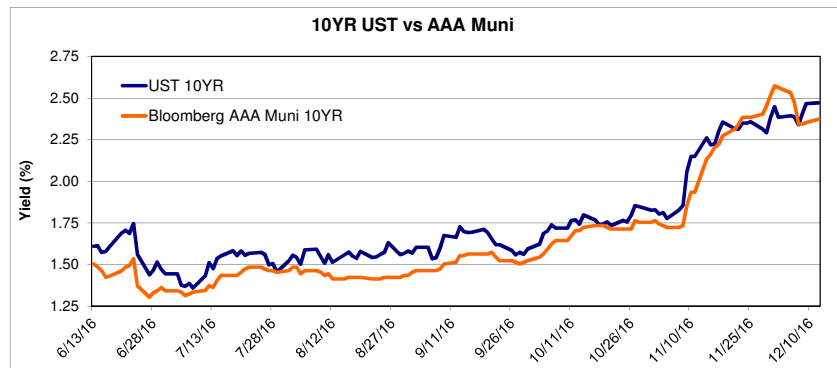
Municipal 30 Day Visible Supply (\$ Bln)	\$9.16	\$14.40
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Bloomberg Muni PICK Offerings (\$ Bln)	\$15.97	\$20.38
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Bond Buyer 20 Municipal G.O. Index	3.78%	3.75%
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Select Economic Releases

Date	Event	Period	Survey	Prior
12/14	FOMC Rate Decision	14-Dec	0.75%	0.50%
12/14	MBA Mortgage Applications	9-Dec	--	-0.70%
12/14	Retail Sales Advance MoM	Nov	0.30%	0.80%
12/14	Industrial Production MoM	Nov	-0.30%	0.00%
12/14	PPI Final Demand MoM	Nov	0.10%	0.00%
12/15	Initial Jobless Claims	10-Dec	255k	258k
12/15	CPI MoM	Nov	0.20%	0.40%
12/15	Markit US Manufacturing PMI	Dec P	54.4	54.1
12/15	Empire Manufacturing	Dec	4	1.5
12/15	Philadelphia Fed Busi. Outlook	Dec	9.3	7.6
12/16	Housing Starts	Nov	1230k	1323k



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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