

Trading Desk Commentary

Two weeks into the New Year and the bond market has shifted to a more neutral tone. President-elect Trump held an anticipated press conference on Wednesday but failed to give markets any guidance on the timing and details of any of his policies. The press conference which was really the only potentially market moving event of the week was largely a dud. Instead of conveying policy specifics, one of his lawyers detailed how the President-elect was distancing himself from his real estate business, which would now be run by two of his sons. With a week to go before the transition of power markets are shifting to more of a risk-off trade since policy-related details will not be forthcoming prior to the inauguration. The bond market has performed relatively well in the first couple weeks of 2017, the early portion of the curve is flat but longer dated treasuries are lower in yield by approximately 5 to 7 basis points. The performance comes in the face of rising inflation expectations. On Friday, wholesale prices rose 0.3% in December, pushing the year-over-year rate to 1.6% and PPI increased 0.1% also in December, pushing the year-over-year rate to 1.7%. With rising inflation expectations and three (presumed) interest rate increases by the Fed over the next 12 months, we imagine the treasury market will experience its fair share of volatility over the next several months. This week should have several potential market moving events for traders. Teresa May delivers a speech on Tuesday and is expected to convey her desire for a "hard" Brexit, meaning that the U.K. would abandon all EU agreements from trade to justice. Also, Janet Yellen makes two prepared speeches, one on Wednesday in San Francisco and another on Friday at Stanford University. As far as data goes, we will get CPI and Industrial Production on Wednesday and Housing Starts and Q4 2016 Chinese GDP on Thursday.

Last week municipals again outperformed treasuries across the curve. The market has been incredibly firm as buyers are paying up to own bonds during the first two months of the year. Munis tend to perform well in January due to lack of supply and significant reinvestment dollars but this feels different from prior years because it's happening so quickly. Last week many high grade names traded well through the AAA MMD scale and almost all deals that came in the primary were well oversubscribed and bumped as much as 15 basis points before being put away. We'll see if the bond grab lasts the rest of the month but the outperformance so far has been driven by below average supply, light dealer positions from year-end, and an abundance of cash from some of the larger mutual funds. Some of that cash came from new money entering the space as the market experienced inflows (\$950 mln) after 10 consecutive weeks of outflows. This week will be highlighted by the \$1.2 billion loan for the City of Chicago. Mayor Rahm Emanuel publicly asked Moody's to withdraw its rating on all of the City's outstanding bonds saying the rating agency and its methodology are far from objective and independent. Moody's rates the City's debt Ba1, while S&P and Fitch rate the debt BBB+ and BBB-, respectively.

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	1.07	-0.10	1.17	90%
5 Year	1.57	-0.11	1.68	83%
10 Year	2.16	-0.07	2.23	90%
30 Year	2.91	-0.07	2.98	97%

UST Rates	Current Wk	Yld Change	Prior Wk
2 Year	1.19	-0.02	1.21
5 Year	1.90	-0.03	1.92
10 Year	2.40	-0.02	2.42
30 Year	2.99	-0.02	3.01

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.77	\$5.66
Competitive	\$1.48	\$2.04
TOTAL	\$8.25	\$7.70

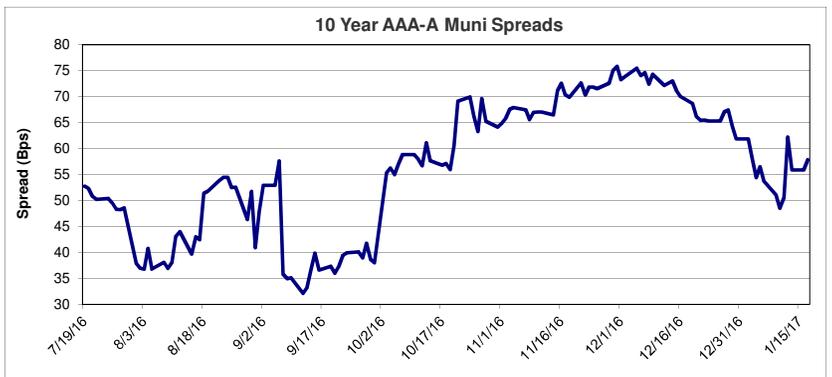
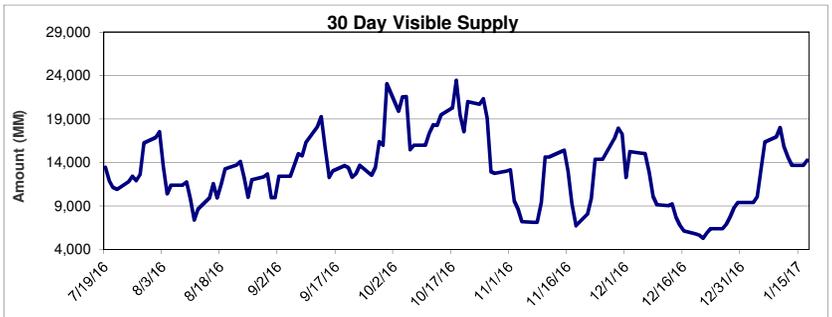
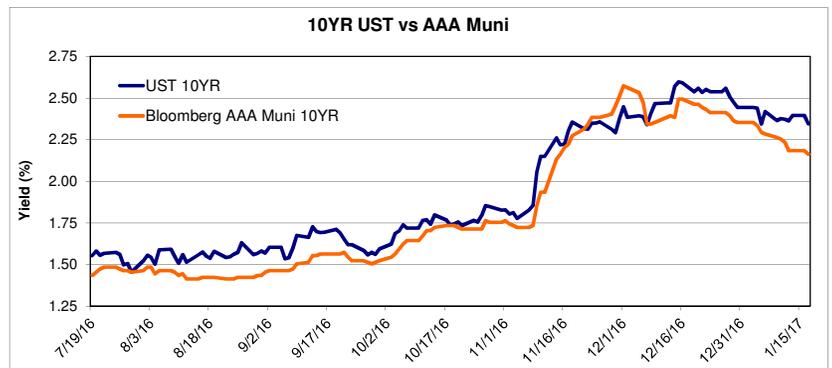
Municipal 30 Day Visible Supply (\$ Bln)	\$13.70	\$16.38
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Bloomberg Muni PICK Offerings (\$ Bln)	\$13.22	\$15.62
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Bond Buyer 20 Municipal G.O. Index	3.72%	3.78%
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Select Economic Releases

Date	Event	Period	Survey	Prior
1/17	Empire Manufacturing	Jan	8.5	9
1/18	CPI MoM	Dec	0.30%	0.20%
1/18	MBA Mortgage Applications	13-Jan	--	5.80%
1/18	Industrial Production MoM	Dec	0.60%	-0.40%
1/18	CPI Ex Food and Energy MoM	Dec	0.20%	0.20%
1/18	Net Long-term TIC Flows	Nov	--	\$9.4b
1/19	Initial Jobless Claims	14-Jan	252k	247k
1/19	Housing Starts	Dec	1187k	1090k
1/19	Philadelphia Fed Business Outlook	Jan	15.1	21.5
1/19	Continuing Claims	7-Jan	2075k	2087k
1/19	Bloomberg Consumer Comfort	15-Jan	--	45.1



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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