








## Trading Desk Commentary

Treasuries were stronger across the curve last week driven by political risks in Europe, skepticism surrounding a March rate hike, and the Trump reflation trade losing steam. Fed minutes released Wednesday also contributed to the risk-off trade as the minutes were largely viewed dovish by market participants. Fed Governors hinted that rates would increase fairly soon should the economy cooperate but there seemed to be no reference nor conviction that March was an option. Time and time again the Fed has shown it wants the market to fully expect an increase prior to a meeting when one is announced. Fed Fund Futures the last two times the Fed raised rates were 74% (December 2015) and 100% (December 2016). Fed Fund Futures currently give the March meeting a 40% chance for a rate hike. Fixed income research veteran Jim Bianco back tested Fed Fund Futures probabilities leading up to meetings that produced a higher benchmark rate. He found that since the Fed began announcing a target for the benchmark rate 22 years ago, the Fed has never raised interest rates when Futures gave that particular meeting less than a 50% chance three weeks prior to the meeting. If you believe this trend will continue, the Fed has already run out of time to convince markets that March is on the table. This week is jam-packed with announcements of all kinds and these will no doubt impact market sentiment. Monday we get durable goods, Tuesday we get our second look at Q4 GDP (consensus 2.1%), and Wednesday we get personal spending and personal income numbers. Highlighting the week will be President Trump's first address to a joint session of Congress where he is expected to give details on tax policy changes, to update us on immigration control, and to release more details concerning the repeal and replacement of the ACA. We expect details to again, overwhelm, but there is no doubt the world will tune in.

Munis followed Treasuries lower, outperforming in the front end of the curve but underperforming in the 10 to 30 year spots. Another week of inflows, the seventh consecutive week, helped bolster demand during a holiday-shortened week of issuance. We continue to see increased demand in the front end of the curve as accounts seem to be avoiding adding duration while waiting on the Fed and for more on Trump's policies. The market should stay relatively range bound unless a significant move in the Treasury market materializes. Accounts that have been selectively selling to reinvest in new issues have been largely disappointed as allotments in the primary market have been tough to come by. Lack of new issue supply is fairly typical for February. Supply will be subdued again this week so we expect more of the same in terms of allotments in the primary space. We will look to the secondary market to find value especially from those accounts that continue to selectively sell hoping for an elusive new issue allotment.

## 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	0.96	-0.07	1.03	84%
5 Year	1.50	-0.07	1.57	83%
10 Year	2.29	-0.08	2.37	99%
30 Year	3.05	-0.06	3.11	103%

UST Rates			
2 Year	1.14	-0.05	1.19
5 Year	1.80	-0.10	1.90
10 Year	2.31	-0.10	2.41
30 Year	2.95	-0.07	3.02

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$2.86	\$2.20
Competitive	\$1.36	\$1.80
<b>TOTAL</b>	<b>\$4.22</b>	<b>\$4.00</b>

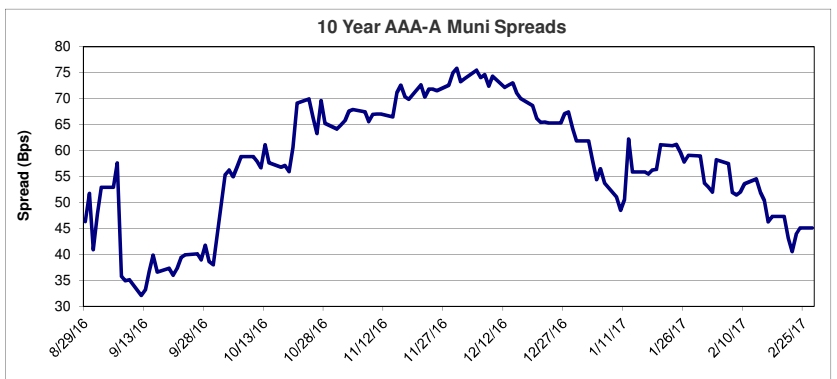
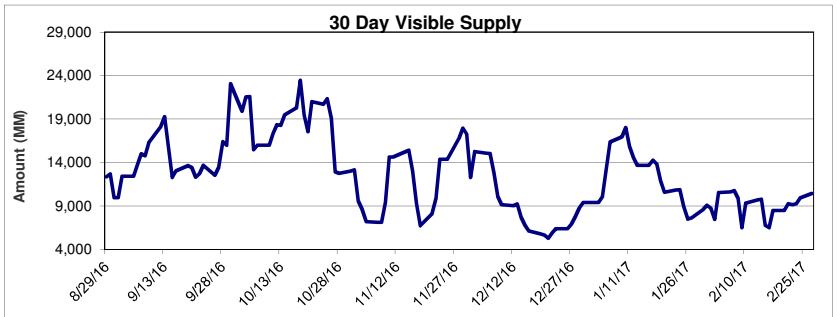
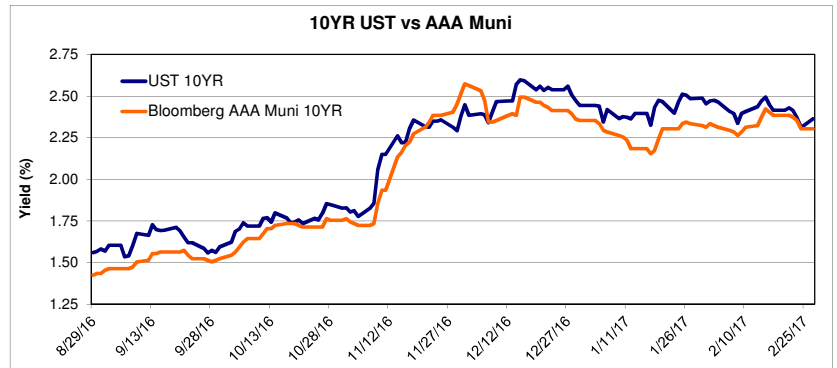
<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$9.94</b>	<b>\$8.50</b>
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<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$18.86</b>	<b>\$21.03</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.92%</b>	<b>3.94%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
2/27	Durable Goods Orders	Jan P	1.60%	-0.50%
2/28	GDP Annualized QoQ	4Q S	2.10%	1.90%
2/28	Conf. Board Consumer Confidence	Feb	111	111.8
2/28	Chicago Purchasing Manager	Feb	53.5	50.3
2/28	Wholesale Inventories MoM	Jan P	0.40%	1.00%
3/1	ISM Manufacturing	Feb	56.2	56
3/1	MBA Mortgage Applications	24-Feb	--	-2.00%
3/1	Markit US Manufacturing PMI	Feb F	54.5	54.3
3/1	Personal Spending	Jan	0.30%	0.50%
3/1	Personal Income	Jan	0.30%	0.30%
3/2	Initial Jobless Claims	25-Feb	245k	244k



**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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