

# Weekly Trading Desk Update

WEEK OF MAY 29TH - JUNE 2ND

## Trading Desk Commentary

### MACRO:

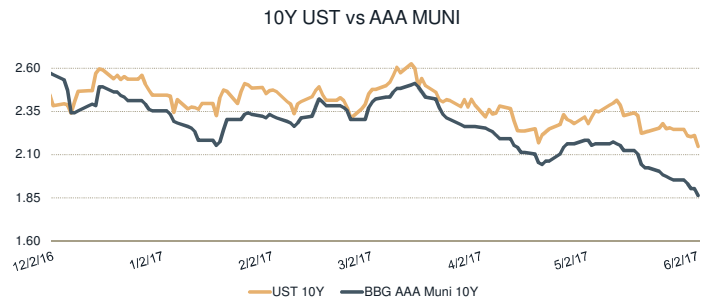
- The UST bull flattener continued through the shortened holiday week as intermediate and longer yields were lower by approximately 10bps, while shorter maturities held steady. The dynamics of this trade remain consistent. Market participants continue to see modest Fed driven front-end yield pressures (Futures show a 90% probability of a June hike), but decreasing risks to any significant uptick in growth and/or inflation.
- Friday's Nonfarm Payroll release of 138k vs. 182k survey didn't help change anyone's mind about the underwhelming Q2 data that many strategists had predicted would improve measurably from the tepid first three months of '17. Although weaker than survey and ADP, the release is also likely indicating that the economy is nearing, if not already reached, full employment levels.
- Looking at the current shape of the yield curve, we see just how much of the election euphoria has worn off in the bond markets. Currently the yield difference between 2 and 30YR UST's is 153bps. That level was last seen in September of '16 and is only 13bps from the five year low of 140bps during August of last year.

### MUNI MARKET:

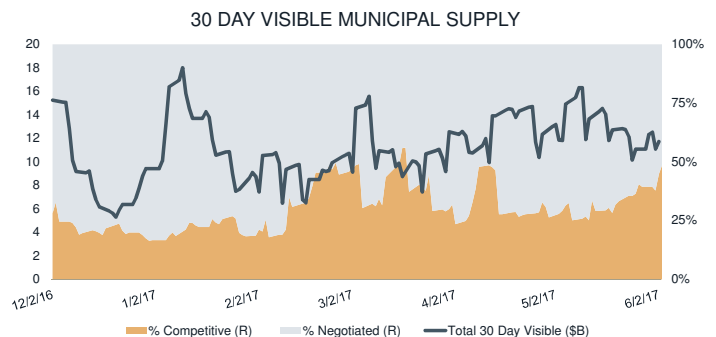
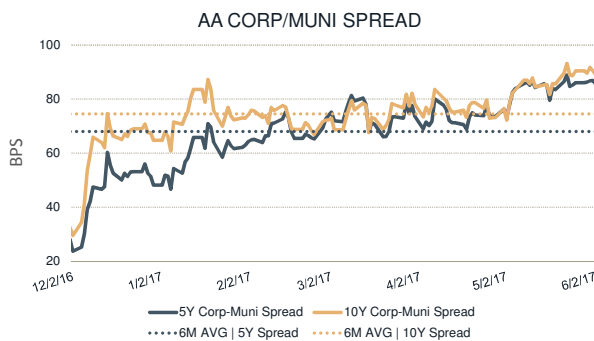
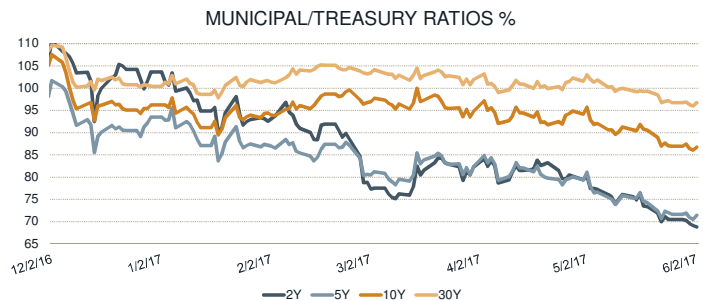
- Muni yields followed Treasury's lower after the disappointing Nonfarm print on Friday. For the week muni yields were lower by 3bps, 9bps, and 11bps in the short, intermediate and long-end of the curve, respectively.
- Despite the first week of outflows in seven weeks, demand in the muni space remains robust due to expected net negative issuance of \$25 to \$35 billion over the summer months. Net negative issuance is not uncommon during summer as redemptions and coupon payments are higher. The technical environment suggests munis should continue to perform well into summer, however, rich MMD/UST ratios may trigger some profit taking and selling from crossover buyers.
- On the credit front, both S&P and Moody's downgraded Illinois last week dropping the GO ratings to BBB-/Baa3 with negative outlooks. The budget stalemate has continued for over two years; the most recent budget failed to pass by a simple majority and now would need a 3/5 supermajority vote to pass, making it even more difficult to achieve. Further rating pressure to sub-investment grade is expected, and credit spreads have widened substantially following the failed passage of the FY 18 budget.

## MARKET OVERVIEW

	5/26/17	6/2/17	Δ bps	1M Trend
Muni	2Y	0.91	0.88	-3
	5Y	1.28	1.22	-6
	10Y	1.95	1.86	-9
	30Y	2.82	2.71	-11
UST	2Y	1.29	1.28	-1
	5Y	1.79	1.71	-8
	10Y	2.25	2.15	-10
	30Y	2.91	2.80	-11



	5/4/17	6/2/17	1M Trend
MUNI/UST Ratios	2Y	77%	69%
	5Y	76%	71%
	10Y	92%	87%
	30Y	101%	97%



## EXPLANATION

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. Competitive and Negotiated are broken out as a percentage of total supply.

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.

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: 30 day visible figures are obtained through Bloomberg, 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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