

Weekly Trading Desk Update

WEEK OF JULY 10TH - 14TH

Trading Desk Commentary

Macro:

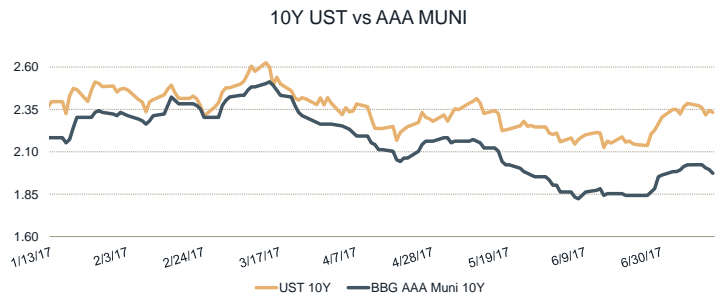
- Congressional testimony from Chair Yellen and CPI data dominated the headlines for fixed income markets on the week, both resulting in a bias towards lower intermediate and longer-term yields. The US 10Y moved lower by approximately 5 bps points to end the week at 2.33% as Chair Yellen took a modestly softer stance on future Fed rate hikes during her semiannual monetary policy report to lawmakers. In her testimony she hinted that there may not be the need for many more hikes before a “neutral” rate is reached.
- On the data front, June CPI showed core inflation rising just 0.1% for the month, bringing the year-over-year down to 1.71% as airfare, vehicle, and wireless prices came under pressure. Additionally, retail sales ex-auto/gas fell 0.1% in the month as brick and mortar merchants continued to feel the squeeze from online sellers.
- The week ahead will bring a fairly light economic calendar primarily focused on housing. More attention will be paid to Thursday’s ECB meeting as markets wait to see if further details will be released on future tapering of asset purchases. Eurozone yields have climbed by more the 30 bps (10Y German Bund) since Mario Draghi hinted at a late year policy change several weeks ago.

Muni:

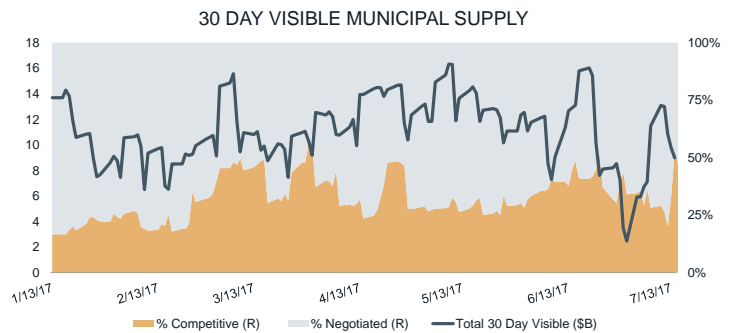
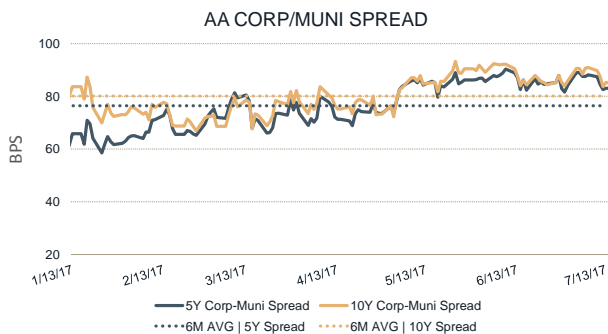
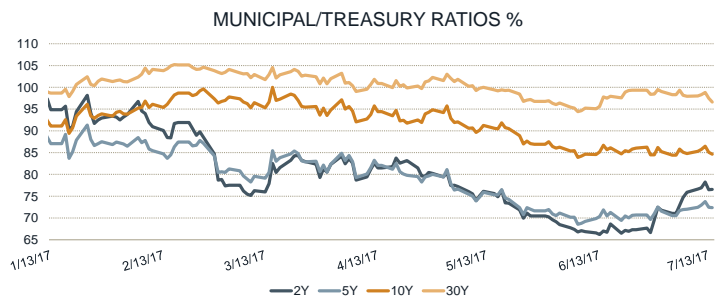
- Muni yields fell across the curve, following Treasury yields lower on what many perceived to be a more dovish tone from Fed Chair Yellen during her two day testimony in front of the House and Senate. Despite the rally in munis, Treasuries slightly outperformed across the curve on the week.
- Fund flows indicated another week of outflows, however total dollars were on the lighter side at approximately \$330 million. Last week’s primary supply was placed with relative ease as the market tone remains constructive. Several of the negotiated loans we followed were oversubscribed and scales were bumped. Similarly, competitive loans were bid aggressively and balances were few and far between.
- On the credit front, the City of Hartford, Connecticut (BB/B2) was downgraded by both S&P and Moody’s last week. The city has had ongoing fiscal challenges and is likely to pursue a debt restructuring. The city has also been in the news recently after major employer and insurance giant Aetna announced it was moving its headquarters to New York from Hartford where it had been since 1853.

MARKET OVERVIEW

| | | 7/7/17 | 7/14/17 | Δ bps | 1M Trend |
|------|-----|--------|---------|-------|----------|
| Muni | 2Y | 1.06 | 1.04 | -2 | |
| | 5Y | 1.40 | 1.35 | -5 | |
| | 10Y | 2.02 | 1.97 | -5 | |
| UST | 2Y | 1.40 | 1.36 | -4 | |
| | 5Y | 1.95 | 1.87 | -8 | |
| | 10Y | 2.39 | 2.33 | -5 | |
| | 30Y | 2.93 | 2.92 | -1 | |



| | | 6/15/17 | 7/14/17 | 1M Trend |
|-----------------|-----|---------|---------|----------|
| MUNI/UST Ratios | 2Y | 67% | 77% | |
| | 5Y | 70% | 72% | |
| | 10Y | 86% | 85% | |
| | 30Y | 98% | 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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