

Weekly Trading Desk Update

WEEK OF SEPTEMBER 25TH - 29TH

Trading Desk Commentary

Macro:

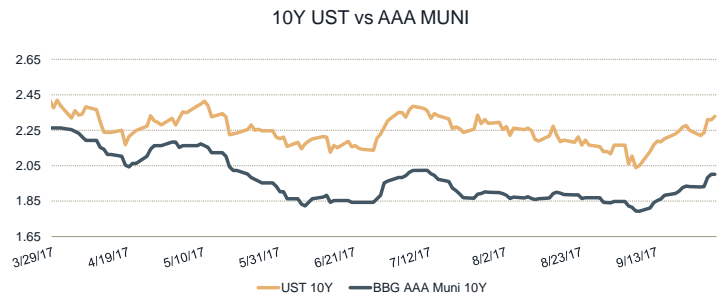
- On September 7th the 10YR Treasury closed at a YTD low yield of 2.03%. The combination of weak inflation, natural disasters, and geopolitical tensions culminated in a feverish flight to quality bid within fixed income markets. Fast-forward a few weeks and we see that yield nearly 30bps higher. The selling pressure last week was propelled in large part by a hawkish Yellen speech where she reiterated the committee's likely intent to tighten, even in the face of tepid price pressures. Additionally, the Administration released a more formal tax plan that rejuvenated hope of some level of reform.
- While early September yields were likely too low given a central bank that continues to forecast higher short-term rates, the recent move in yields will likely face challenges from here. Inflation data continues to be disappointing (Friday's Core PCE 1.3%), the ECB has yet to commit to any type of tapering, and political hurdles to tax reform will be large. Until some of these influencers evolve, the trading ranges seen most of this year are likely to remain in play.
- Near-term we will be closely watching next week's jobs data. Although payroll numbers will be distorted by hurricane related effects, the Average Hourly Earnings release may help shed some light on this more recent reflation trade. For now, economists expect a 2.5% YOY reading, the same level where we've been stuck since April of this year.

Muni:

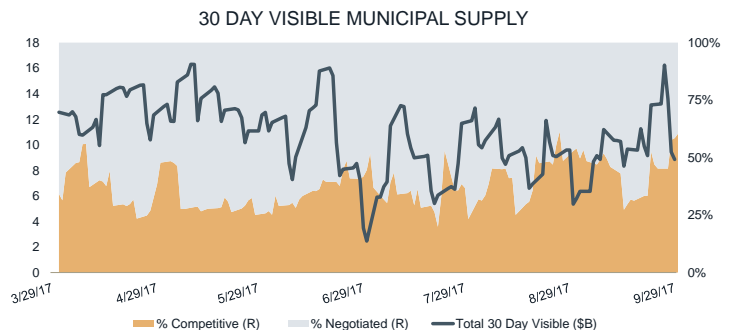
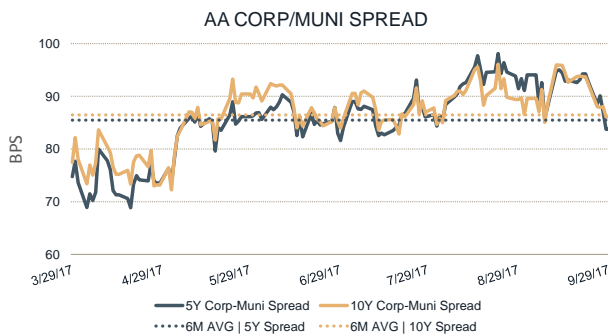
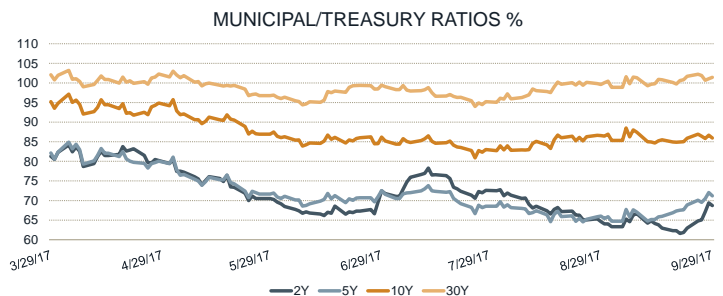
- Munis suffered declines on the week, taking their cues from the Treasury market sell-off. Yields on the AAA MMD Index were higher by 8 to 9 bps at 5 years and out. The softness coincided with one of the heaviest primary calendars in quite some time and most new issues needed concessions to get placed. In the secondary market we noticed several new issues trading noticeably weaker once activity commenced.
- President Trump revealed an outline of his tax proposal with few solid details on Wednesday. Proposals meaningful to the muni market include eliminating the AMT, reducing the corporate tax rate from 35% to 20%, and reducing the number of individual tax brackets from seven to three (12%, 25% and 35%). These changes, among others, have the potential to alter demand for Munis, but we will have to wait for more clarity on the final provisions to develop any meaningful conclusions.

MARKET OVERVIEW

		9/22/17	9/29/17	Δ bps	1M Trend
Muni	2Y	0.90	1.02	12	
	5Y	1.28	1.37	9	
	10Y	1.93	2.00	7	
	30Y	2.83	2.90	8	
UST	2Y	1.43	1.48	5	
	5Y	1.86	1.93	6	
	10Y	2.25	2.33	8	
	30Y	2.78	2.86	8	



		8/31/17	9/29/17	1M Trend
MUNI/UST Ratios	2Y	64%	69%	
	5Y	66%	71%	
	10Y	87%	86%	
	30Y	100%	101%	



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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