

# Weekly Trading Desk Update

WEEK OF OCTOBER 16TH - 20TH

## Trading Desk Commentary

### Macro:

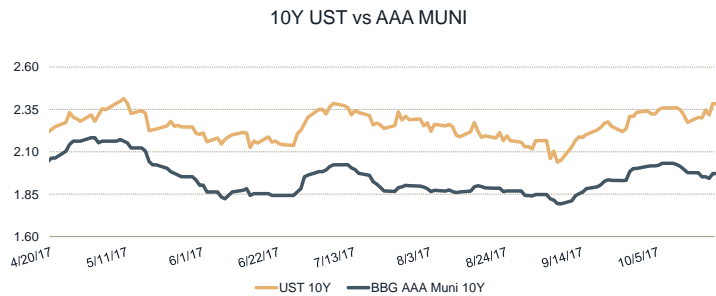
- Although the economic calendar here at home was reasonably quiet, bond market participants still had plenty to contend with. On the week, US Treasury yields were higher by 4-8 basis points as traders positioned for the prospect of a more hawkish central bank leader come February, the advancement (albeit small) of tax reform, and the upcoming meeting of the ECB.
- The White House has said that a Fed Chair nominee would be announced within the coming weeks, and it appears that the field has been culled down to five. At this point the market views Jerome Powell, a current Fed Governor and monetary policy centrist, as the most likely candidate. Powell, who became a FOMC member in 2012, has never dissented on a vote since he took office according to Bloomberg. John Taylor, the noted Stanford economist, and Janet Yellen have also received high praise from President Trump following their interviews, and at this point both also appear to be viable contenders.
- Late last week the Senate passed a budget resolution that could help pave the way for more broad based tax reform later this year or early '18. The house will now begin to reconcile a senate resolution that could result in significantly higher deficits over the next 10 years with hopes of spurred economic growth as an offset. Several GOP representatives have vowed to only support a revenue neutral spending plan, so it will now be up to Speaker Ryan and company to try to bring compromise to the house floor.

### Muni:

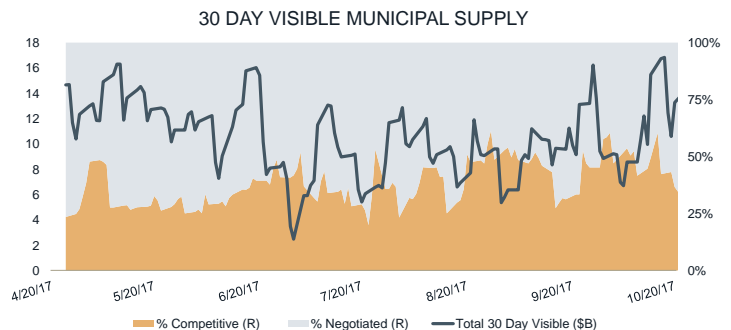
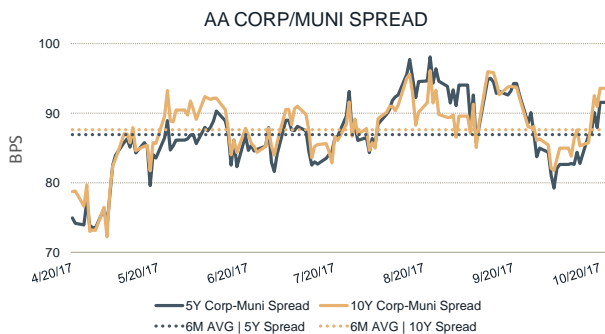
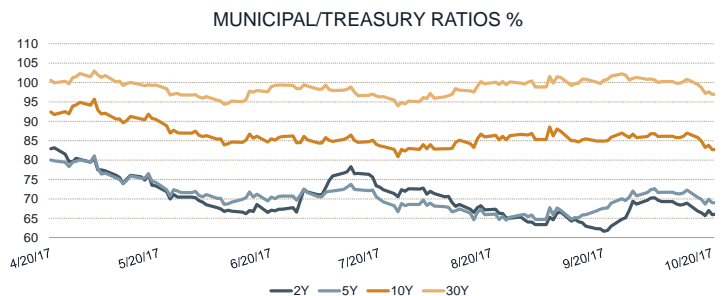
- Municipals outperformed treasuries across the yield curve last week, largely attributed to the Senate's passage of a budget resolution that paves the way for tax reform. Treasuries widened by 4 to 7 basis points following the news on Friday, while munis remained on firmer footing. Even in the face of elevated supply last week, munis proved resilient, digesting the supply without any notable distribution setbacks. The muni curve continues to flatten: the muni 2yr-30yr slope is currently touching 177 bps, only 4 bps off its low of the year of 173 bps seen in late July.
- All eyes in the muni market this week will be on the \$4.5 billion Illinois general obligation loan. Last week the State sold \$1.5 billion with relative ease as yield hungry investors took advantage of higher yields from the Baa3/BBB- rated issuer. Proceeds from the bonds will be used to offset the massive backlog of bills (over \$15 billion) Illinois has accumulated over years of structural imbalance.

## MARKET OVERVIEW

		10/16/17	10/20/17	Δ bps	1M Trend
Muni	2Y	1.03	1.04	1	
	5Y	1.37	1.39	2	
	10Y	1.98	1.97	0	
	30Y	2.81	2.81	0	
UST	2Y	1.54	1.57	3	
	5Y	1.95	2.01	6	
	10Y	2.30	2.38	8	
	30Y	2.82	2.90	7	



		9/22/17	10/20/17	1M Trend
MUNI/UST Ratios	2Y	63%	66%	
	5Y	69%	69%	
	10Y	86%	83%	
	30Y	102%	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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