

Trading Desk Commentary

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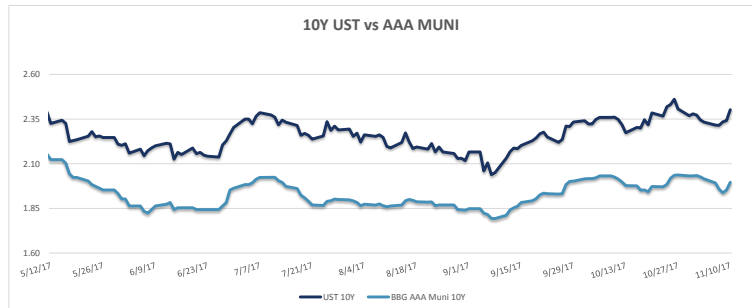
- Bond market participants had a reasonably quiet week after what has been a busy news and data cycle over that last month or more. On the week yields did move higher, based largely on a late week sell-off in European sovereign debt, but they remained well within recent ranges. A general steepening of the curve saw yields on 10 and 30YR US Treasuries rise by approximately 6 and 7 basis points respectively as growth and inflation expectations out Europe reemerged.
- Tax reform continued to move forward on the week as the Senate released their version of a bill that differed significantly from the House. Main differences included a one-year delay in cutting corporate taxes while maintaining the mortgage interest deduction. At this point it is unlikely that the Senate will vote on their version prior to the Thanksgiving holiday; however, progress in the House is more optimistic with a vote likely this week. Speaker Ryan has already said that if both chambers do pass their own version of a bill, they will move directly into conference committee in hopes of reconciling differences.
- Looking ahead to next week, the economic releases resume with key inflation data in form of PPI and CPI. October's Core CPI release is currently surveyed at 1.7%, and, if the reading does match expectations, it will mark the sixth consecutive month at that level and will be the last look before the FOMC begins its two day meeting on December 12th. Aside from tax reform, December's Fed meeting is likely the next key date for investors. Although a 25bps hike is nearly 100% priced in, investors will be closely watching the "dots" to see if the governors still foresee a three hike scenario in 2018.

Muni:

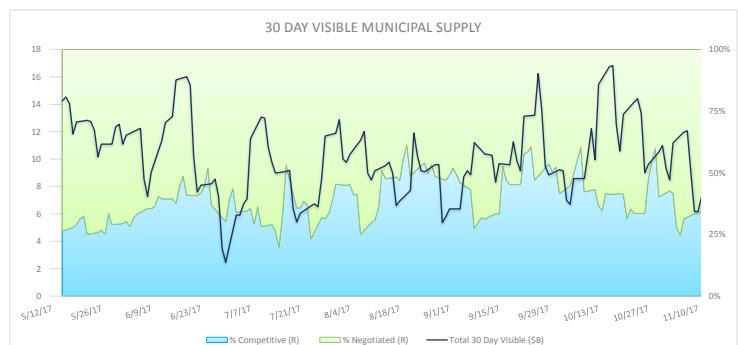
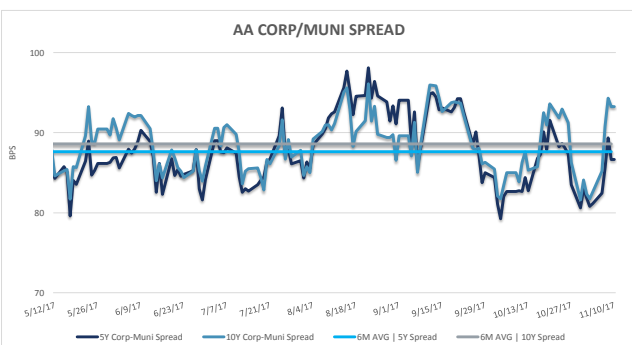
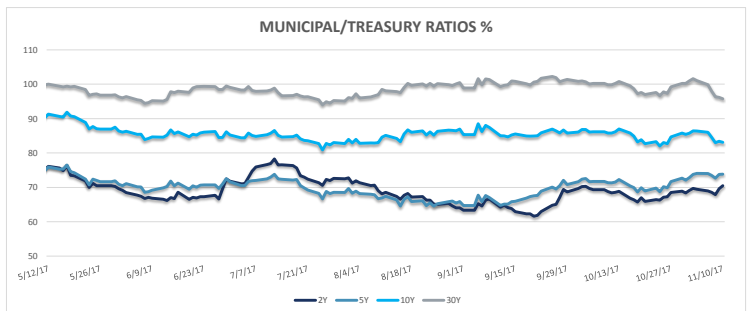
- The chaotic scene surrounding tax reform in Washington once again took center stage in muniland. The Senate released its version of reform Thursday, and there are several key differences from the House's version we will note. The Senate's version keeps seven tax brackets (though with a lower top tax rate), pushes the corporate tax rate cut to 2019 (though it remains at 20%), and, although it still eliminates the ability for municipalities to issue advance refunding bonds on a tax-exempt basis, it does preserve the ability to issue Private Activity Bonds. With only five non-holiday weeks left in the calendar year, we believe that reform, if passed, will look more like the Senate's version; however, due to the lack of time, we see a narrow passageway to success.
- Munis outperformed Treasuries on the week as participants began to realize muni supply could decrease substantially following passage of tax reform. In the primary space, competitive transactions were well bid, and negotiated deals saw strong demand with most scales bumped from original levels. This week supply remains manageable, and next week's should be light because of the Thanksgiving holiday. However, after Thanksgiving we expect supply to increase in front of potential tax reform. We expect demand to be strong, however, should any softness emerge with increased supply, we would view this scenario as a buying opportunity.

MARKET OVERVIEW

		11/3/17	11/10/17	Δ bps	1M Trend
Muni	2Y	1.12	1.17	4	
	5Y	1.47	1.52	4	
	10Y	2.02	2.00	-2	
	30Y	2.84	2.76	-8	
UST	2Y	1.61	1.65	4	
	5Y	1.99	2.05	6	
	10Y	2.33	2.40	7	



		10/12/17	11/10/17	1M Trend
MUNI/UST Ratios	2Y	69%	70%	
	5Y	72%	74%	
	10Y	86%	83%	
	30Y	100%	96%	



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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