

Trading Desk Commentary

Macro:

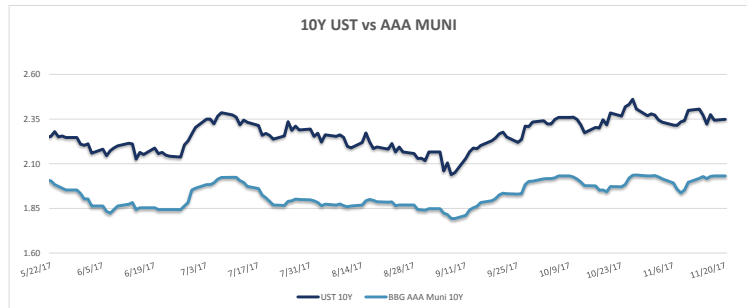
- The curve flattening theme resumed early in the week as a flight to quality saw equities and high yield soften while intermediate and long-end UST yields fell. On the week, the 10YR Treasury was lower by approximately 6 basis points, while shorter maturities continued to creep higher as we approach the December Fed meeting and a likely third hike from the committee. The spread (slope) between 2's and 10's has now narrowed to just 62 basis points, the flattest since the fall of '07.
- On the data front, PPI continued to show a positive price trend with October's core reading coming in above estimates (0.4% vs 0.2%) and a year-over-year of 2.4%, which has not been seen since early '12. CPI, while not as impressive, did meet expectations and saw the core year-over-year reading tick up ever so slightly to 1.8%. The retail sales trend remained on solid footing with a current year-over-year run rate around 4.5%, which helps support the strong 4Q estimate of 3.4% that the Atlanta Fed's GDPNow currently predicts.
- The shortened holiday week ahead will likely be a quiet one as a limited economic calendar and quieter news cycle out DC should see rates remain well within recent ranges. The next key events will be a Senate vote on tax reform and our next look at 3Q GDP, currently surveyed at 3.3%.

Muni:

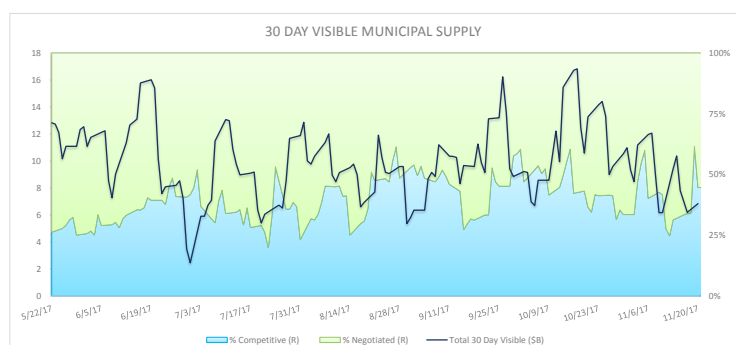
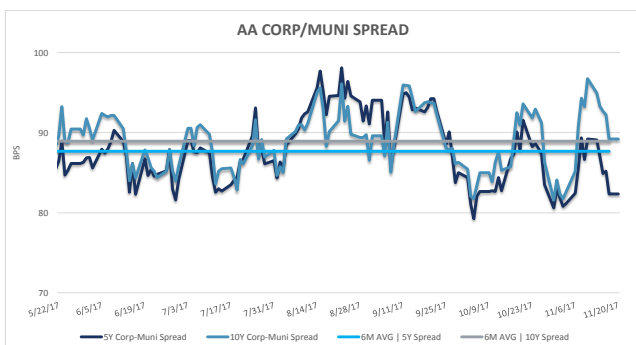
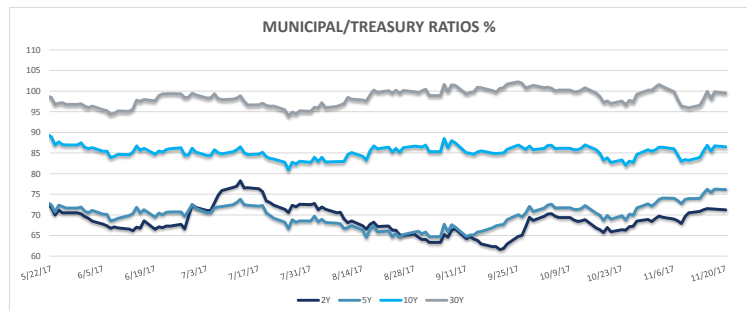
- Munis lagged Treasuries across the curve last week, and, as a result, ratios pushed higher especially on the front and intermediate portions of the curve. The weakness was most pronounced on the front of the curve where rates continue edge higher prior to a near-certain Fed hike at the FOMC's December meeting. The results of these moves have pushed the BVAL 2-30 year slope to its flattest level since September of '16.
- Even though tax reform still faces significant obstacles, the municipal market is now coming to grips with the fact that a significant portion(s) of the market will not exist next year. It is becoming clear that even if PABs survive reform, advance refunding issuance will be eliminated. As such, there have been numerous articles written about a glut of supply heading into year end. Although we think issuance will increase, we believe that the supply will be driven by deals that are already in the "queue". For instance the NY MTA transaction being priced this week was upsized from ~\$700 million to ~\$2 billion. Due to the complexity and sheer time it takes to bring a deal to the public market, it may be too late for issuers hoping to squeeze one final advance refunding in.

MARKET OVERVIEW

		11/13/17	11/20/17	Δ bps	1M Trend
Muni	2Y	1.19	1.23	4	
	5Y	1.54	1.57	3	
	10Y	2.02	2.03	1	
	30Y	2.77	2.77	0	
UST	2Y	1.68	1.73	4	
	5Y	2.07	2.06	-1	
	10Y	2.41	2.35	-6	
	30Y	2.87	2.79	-8	



		10/20/17	11/20/17	1M Trend
MUNI/UST Ratios	2Y	66%	71%	
	5Y	69%	76%	
	10Y	83%	87%	
	30Y	97%	99%	



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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