

Trading Desk Commentary

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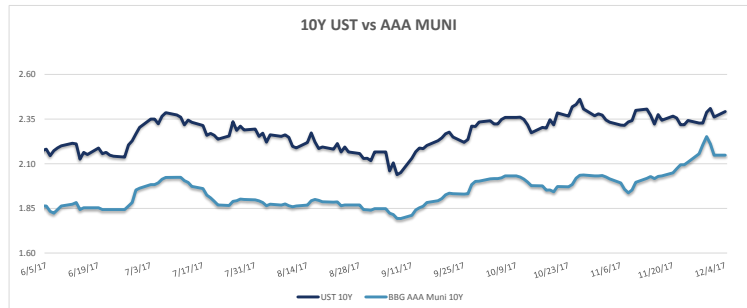
- Yield volatility returned to fixed income markets last week as investors tried to wrestle with the odds of a Senate tax bill passing, and news that former National Security Advisor, Michael Flynn, was ready to testify against members of the current administration. The 10YR Treasury began the week near a short term low of 2.32%, was propelled more than 12bps higher Thursday afternoon on the news that Senate leaders were nearing 51 votes, and then saw a swift reversal immediately following the Flynn announcement on Friday.
- What we do know now is that Senate and House leaders will move into conference committee to try to reconcile the large differences within their respective bills. Major differences include the sunset of individual tax cuts, the timing of the corporate tax cut (and maybe the rate itself), mortgage interest deduction amount, AMT, and the list goes on. While not impossible for the committee to iron out these differences, they are working on an exceptionally short timeline with no room for error. As for the Russian investigation, it will still likely be months, if not longer, before we know how far this will go.
- Looking to the week ahead, attention will be focused on Friday's updated set of jobs data. While NFP for November is expected to remain at a solid pace of 198K, and unemployment near its recent low of 4.1%, it will likely be Avg Hourly Earnings that steals the show. Coming off a weak October that showed only a 2.4% yoy increase, the current survey stands at 2.7%; if it were to meet expectations, it may help comfort some of the inflation hawks at the FOMC.

Muni:

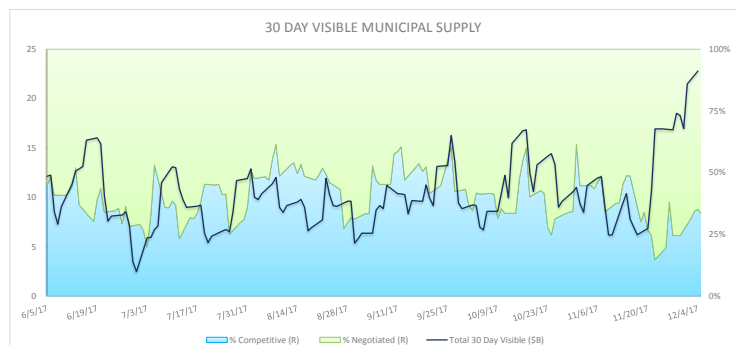
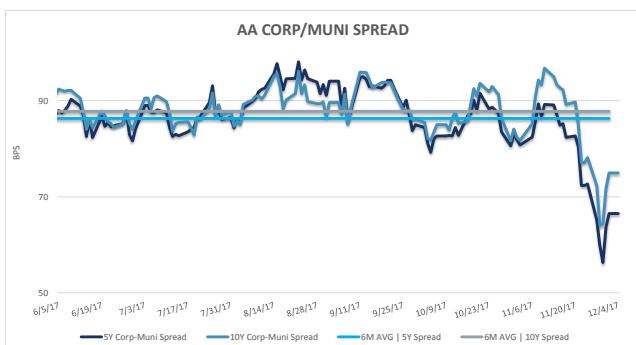
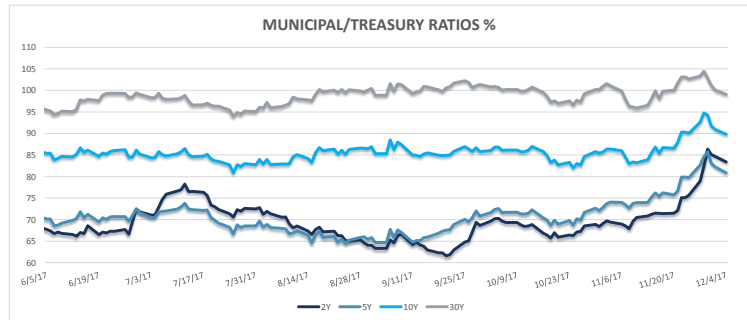
- The market will absorb a substantial calendar this week- over \$20B will price, which is nearly 3x the weekly average this year. The volume is primarily driven by the anticipation of tax reform this year as the Senate passed its own version of tax reform early Saturday morning. Both the House and Senate bills will eliminate advance refunding bonds, while the House version goes even further, also eliminating Private Activity Bonds (PABs). We have heard issuance could be in the ~\$30 - \$50 billion range this week but believe it should be on the lower side when factoring in time constraints heading into year end.
- This week, and really the remainder of the calendar year, should be very lively for those of us in the market. On one hand the abundance of primary market supply has the potential to cause significant cheapening and be bearish overall for the market. On the other hand, the market should know that issuance is likely to be substantially lower next year as a result of tax reform. We will see if the market is able to look past the expansive calendar and view this as a buying opportunity or if the supply is just too much for the market to constructively absorb. We remain steadfast in our opinion that any cheapening over the next couple of weeks should be viewed as a buying opportunity.

MARKET OVERVIEW

		11/27/17	12/4/17	Δ bps	1M Trend
Muni	2Y	1.37	1.50	13	
	5Y	1.69	1.74	5	
	10Y	2.16	2.15	-1	
	30Y	2.86	2.76	-10	
UST	2Y	1.74	1.80	6	
	5Y	2.05	2.15	10	
	10Y	2.33	2.39	6	



		11/3/17	12/4/17	1M Trend
MUNI/UST Ratios	2Y	69%	83%	
	5Y	74%	81%	
	10Y	86%	90%	
	30Y	101%	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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