

Trading Desk Commentary

Macro:

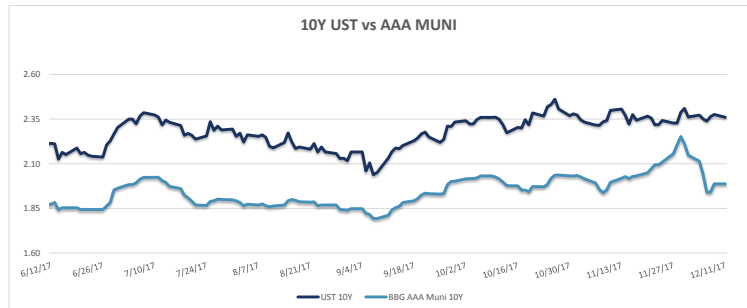
- US rates were little changed on the week as investors began to second guess what tax reform might actually look like by the time it leaves conference committee. Focus will now be on whether congressional leaders will be able to exclude the corporate AMT without having to meaningfully increase the proposed 20% tax rate.
- A government shutdown was narrowly avoided with Thursday's passing of a continuing resolution to December 22; estimates now show the US Treasury should be able to operate until approximately March of '18 if a debt ceiling agreement cannot be reached.
- Friday's job report continued to show a firm labor market with NFP for November coming in at +228K as broad based hiring was noted across sectors and unemployment remained at a multi-decade low of 4.1%. However, persistently low wage growth remained the theme with Avg Hourly Earnings climbing only 2.5%. This week we will be closely watching for any adjustments to the FOMC's "dot plot" that at last read called for a Fed Funds of 2.125% only 12 months from now (10YR UST 2.38% currently).

Muni:

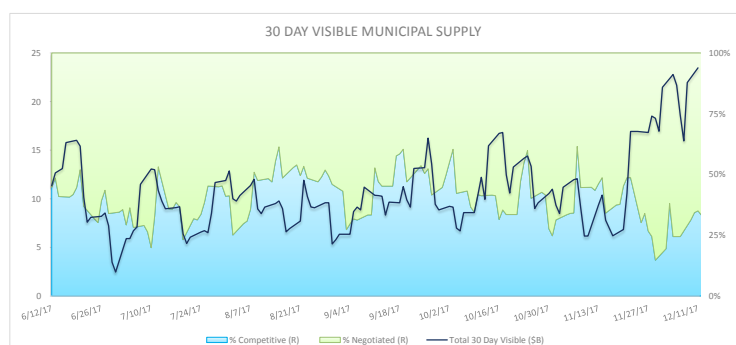
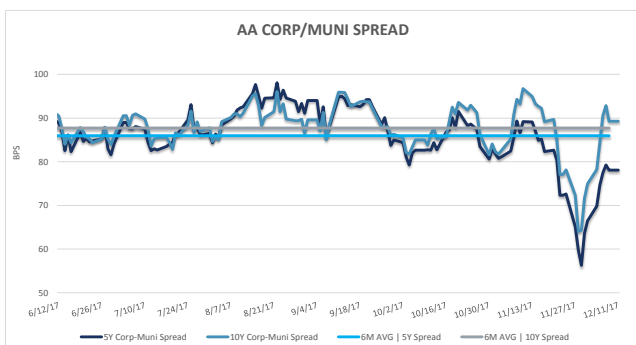
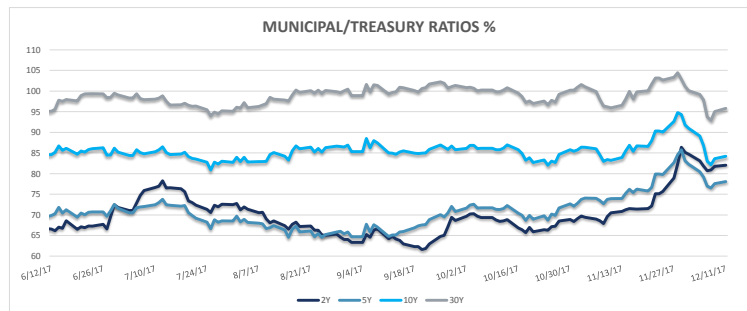
- Volatility was elevated, but munis ended the week significantly outperforming their Treasury counterparts. Muni yields were lower by as much as 12bps, and that incorporates Friday's selloff that pushed yields higher by as much as 9bps on the day. The strength of the market last week was particularly compelling since supply was massive (~\$20 billion) at the same time demand appeared to be more muted (~\$800 million mutual fund outflows for the week). We believe the strength was driven largely by dealer desks buying as many bonds as possible on the assumption tax reform is passed this year. As we have noted in the space recently, tax reform could eliminate the issuance of PABs and the ability for issuers to advance refund bonds, potentially decreasing the market by as much as 15% to 30% in any particular year.
- This week supply will again be robust as another ~\$23 billion is in the queue. We expect this to be the final week of robust primary supply, but it still appears that issuance is on pace to potentially surpass the record for December supply (\$48 billion in 2006). Even though the market has absorbed the enormous supply extremely well month-to-date, we expect that some softness will result during or after this week's supply filters through. Again as we have said before, any cheapening should be viewed as a buying opportunity since supply will be noticeably lower next calendar year.

MARKET OVERVIEW

		12/4/17	12/11/17	Δ bps	1M Trend
Muni	2Y	1.50	1.47	-3	
	5Y	1.72	1.66	-6	
	10Y	2.11	1.99	-13	
	30Y	2.74	2.63	-11	
UST	2Y	1.81	1.79	-2	
	5Y	2.14	2.13	-2	
	10Y	2.37	2.36	-1	



		11/10/17	12/11/17	1M Trend
MUNI/UST Ratios	2Y	70%	82%	
	5Y	74%	78%	
	10Y	83%	84%	
	30Y	96%	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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