



ETF STRATEGIES

COMMENTARY – FIRST QUARTER 2018



STRATEGY COMMENTARY

- The interest rate momentum building into the close of 2017 quickly accelerated during the first quarter. Tax reform enthusiasm, debt issuance, inflation fears, and a committed Federal Reserve culminated in a 50bps move higher on the 10YR UST yield by mid-February. While 2.93% tested the 3.03% from late 2013, fundamentals corralled the market back to a more constrained trading range for the remainder of the period.
- Our outlook for 2018 does not call for significantly higher intermediate and longer-term rates, but we respect the FOMC's forecast for approximately 75bps of tightening in both '18 and '19 along with its balance sheet reduction and significant issuance by the US Treasury. This likely results in a flatter curve but at modestly higher yields over the next 12-24 months. As such, our strategies have been adjusted to moderately more defensive durations to help buffer those risks.
- The record wave of municipal issuance in late '17 and the elimination of advance refundings via tax reform caused muni supply in the first quarter to be nearly 30% lower than last year. Despite the presence of tax reform driven bank selling, retail investor demand remained strong and helped drive tax-exempt outperformance for the period. A comparison of broad market ETFs shows AGG (iShares US Aggregate) at -1.46% versus MUB (iShares Municipal) at -1.11% for the quarter. We remain constructive on the municipal sector in 2018's limited supply environment, and we currently favor tax-exempts in our Opportunity Plus strategy. The High Yield Muni space continued its outperformance during the quarter, and we remain constructive on this sector via allocations to HYD (VanEck High Yield Muni) and SHYD (VanEck Short High Yield Muni) in the Muni Plus and Opportunity Plus strategies.
- Equity market volatility increased significantly over the quarter, and corporations peppered the market with new issuance, causing credit spreads to see their first measurable move wider since early '16. Put in perspective though, the Bloomberg Barclays US Aggregate Credit Index only retraced back to levels seen just last fall, and corporate credit ETFs like CRED (iShares U.S. Credit Bond) saw performance over the quarter not significantly behind comparable duration US Treasury ETFs like IEF (iShares 7-10 Year Treasury Bond). Near-to-medium term, we still view the corporate credit space being generally supported by economic growth, healthy corporate earnings, and a more advantageous tax code.

CAPRIN ETF STRATEGIES

OPPORTUNITY PLUS ETF

AS OF: 3/31/2018

Duration: 4.59 yrs

Highlights: Shortened Duration,
Muni 60%/Taxable 40%,
Increased Allocation to
High-Yield Muni

MUNI PLUS ETF

AS OF: 3/31/2018

Duration: 4.38 yrs

Highlights: Shortened Duration,
Increased Allocation to
High-Yield Muni

CORE PLUS ETF

AS OF: 3/31/2018

Duration: 5.15 yrs

Highlights: Shortened Duration,
Added Short High-Yield

FIGURE 1: RELATIVE VALUE (% PREM/DISC AS OF 3/31/18)

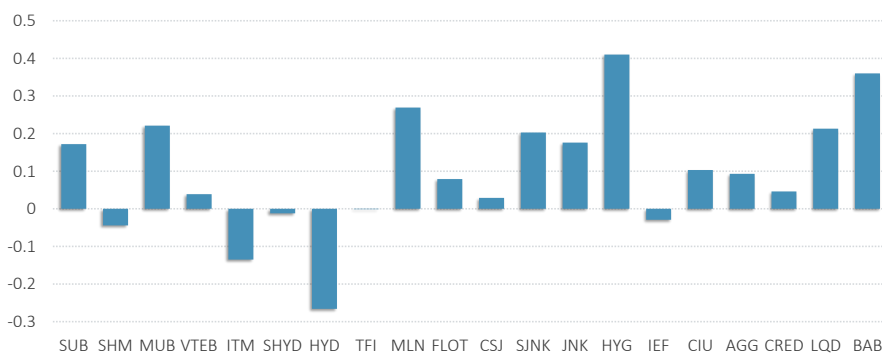
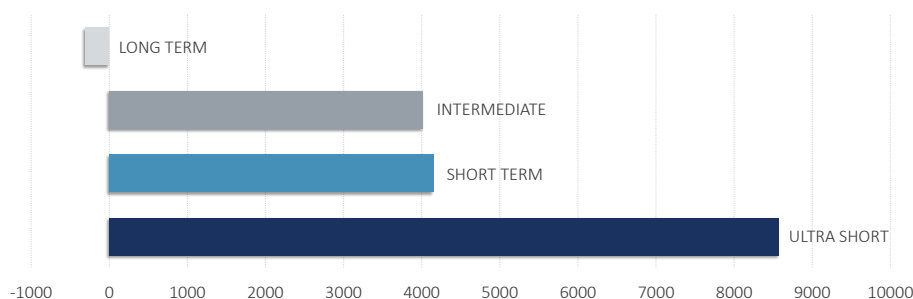


FIGURE 2: QUARTERLY FUND FLOWS BY MATURITY (\$MM)



Please refer to the second page for sources, definitions and disclosure information.

FIGURE 3:

ETF TICKER	QRTLY TREND	% Q RETURN	STD DEV
SUB		0.19	0.12
SHM		0.01	0.09
MUB		-1.26	0.78
VTEB		-1.32	0.34
ITM		-1.88	0.24
SHYD		0.60	0.05
HYD		0.03	0.23
TFI		-1.55	0.42
MLN		-1.72	0.24
FLOT		0.51	0.04
CSJ		-0.41	0.30
SJNK		0.21	0.18
JNK		-1.49	0.45
HYG		-1.05	0.96
IEF		-1.94	1.10
CIU		-1.37	0.80
AGG		-1.47	0.96
CRED		-2.23	1.31
LQD		-2.90	1.84
BAB		-0.81	0.35

* Strategy positioning highlights are current as of date shown and subject to change without prior notice.

SOURCES: ETF return, standard deviation, premium and discount, and fund flow data are obtained through Bloomberg Professional Service. Information obtained from these sources is believed to be reliable but is not guaranteed and is subject to change without notice.

DEFINITIONS:

Standard Deviation: A measure of the dispersion of a set of data from its mean. Standard deviation is calculated as the square root of variance.

Duration: A measure of the timing of cash flows (i.e., the interest payments and the principal repayment) to be received from a given fixed income security. Duration is used to assess price volatility for given changes in interest rates, the reinvestment risk associated with a given portfolio or the interest rate risk associated with matching particular interest-rate-sensitive assets and liabilities.

Fund Premium and Discount: A pricing situation that occurs when the share value of an exchange traded fund is trading above or below the net asset value (NAV) of its components.

Net Asset Value (NAV): The value of each share of a fund as determined by the value of its underlying holdings, including any cash in the portfolio. NAV is calculated by dividing a fund's total net assets by its number of shares outstanding.

Month Over Month Return Trend: Fund plots represent returns for a two month period, with the X-axis value being prior month's total return and the y-axis value being the current month total return as of publication.

ETF INFORMATION

iShares Bond ETF Information (MUB, NYF, CMF, CRED, LQD, CSJ, HYG, TIP, AGG, BAB, IGOV, FLOT): [iShares Bond ETF Overview Page](#)

Van Eck Market Vectors Municipal Bond ETF Information (ITM, HYD, MLN): [Market Vectors Municipal Income ETF Overview Page](#)

SPDR Fixed Income ETF Information (TFI, JNK): [SPDR ETF Product Information Page](#)

Powershares ETF Information (PZA): [PZA Product Information Page](#)

ProShares ETF Information (PST, TBT): [ProShares Leveraged Inverse Treasury Information Page](#)

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