



WEEKLY TRADING DESK UPDATE



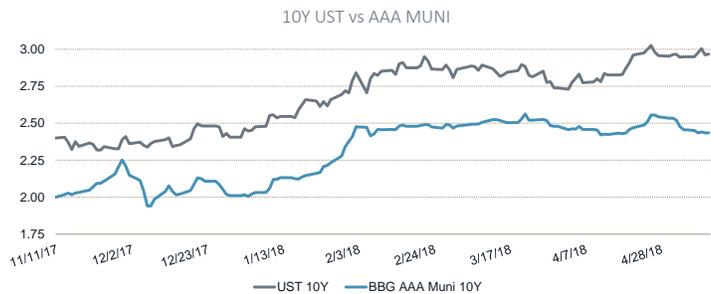
MAY 7TH - MAY 11TH

TRADING DESK COMMENTARY

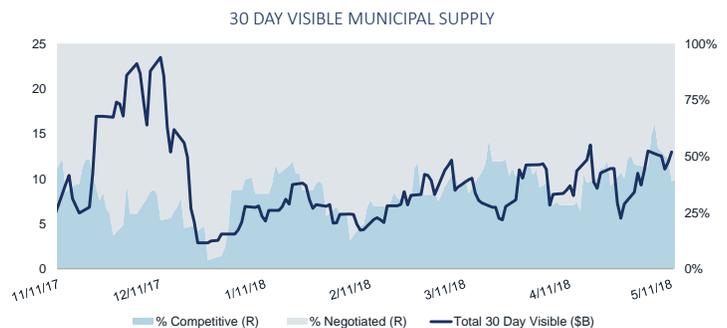
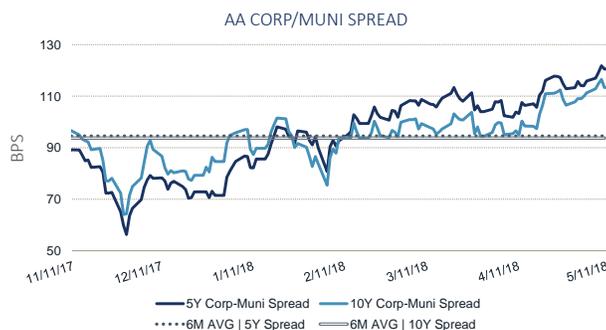
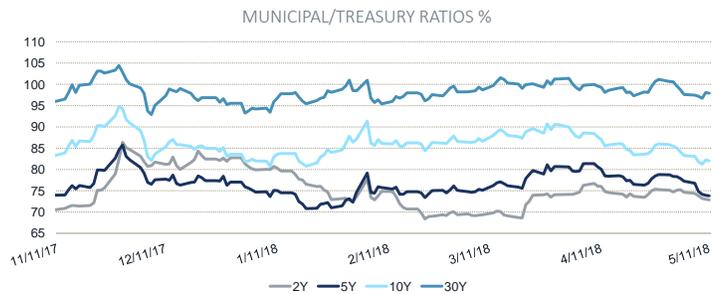
- US Treasury yields continued to trade in tight ranges on the week despite an active economic release calendar. The 10YR UST has now remained within an 8bp window since mid-April as market participants seem confident that a modest inflation landscape will persist for now.
- The Consumer Price Index (CPI) dominated the headlines last week and did little to support the bond bears. Data showed a slight softening trend versus earlier this year as core prices increased by only 0.1% in April. Keeping yields from moving lower on this news was yet another drop in unemployment, now sub-4% (3.9%). Inflation hawks remain confident this tightening labor market will ultimately show up in form of higher prices, but this has been slow to materialize.
- As it stands now the market is reasonably confident in two additional 25bps (0.25%) Fed rate hikes this year. June and September currently show 72% and 58% probabilities respectively, while a fourth hike in December remains less than a coin flip (39%). Looking ahead, the June 13th FOMC meeting will be of particular importance for investors, not for the actual rate decision, but to see whether the committee remains confident in their inflation and interest rate projections.
- Muni yields pushed lower in all tenors except the 30YR despite a slightly weaker Treasury market. Yields on the benchmark AAA MMD curve were lower by 5bp at 3 YR and 1bp at 10YR maturities and unchanged out longer. Muni outperformance, especially in front-to-intermediate maturities, has compressed muni/treasury ratios to rich levels now approaching longer-term lows.
- Tight supply conditions are expected to persist through the summer months. This week's \$11 Billion primary (the largest since 12/11/17) should give us a good indication if demand can remain robust at these rich ratios. We believe the elevated primary supply will be constructively placed and that total supply (down ~28% YTD) will continue to be in high demand by traditional buyers. Any moderate backup in rates should continue to be viewed as an acceptable point of entry.
- May 14th marks the first day the new MSRB G-15 and G-30 amended rules go into effect. These require dealers to disclose the markups they receive on municipal bond transactions when a dealer also executes one or more offsetting principal transaction(s) on the same trading day as the customer transaction. These disclosures must appear on confirmations sent to retail clients, based on the security's prevailing market price, which is formed using a number of market factors. For more information on this rule please feel free to reach out to us directly or visit the "Perspectives" section of our website.

MARKET OVERVIEW

		5/4/18	5/11/18	Δ bps	1M Trend
Muni	2Y	1.86	1.85	-2	
	5Y	2.15	2.09	-6	
	10Y	2.46	2.44	-2	
	30Y	3.05	3.04	-1	
UST	2Y	2.50	2.53	4	
	5Y	2.78	2.83	5	
	10Y	2.95	2.97	2	
	30Y	3.12	3.10	-2	



		4/12/18	5/11/18	1M Trend
MUNI/UST Ratios	2Y	75%	73%	
	5Y	78%	74%	
	10Y	86%	82%	
	30Y	98%	98%	



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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