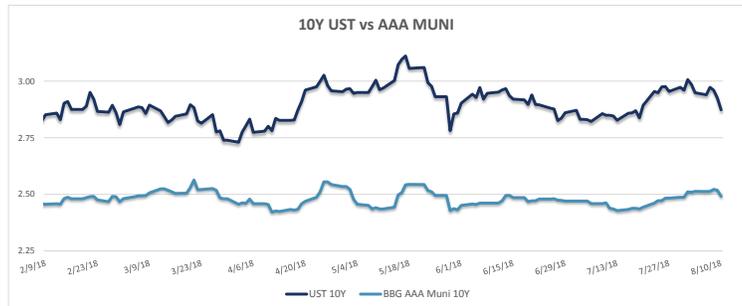


## TRADING DESK COMMENTARY

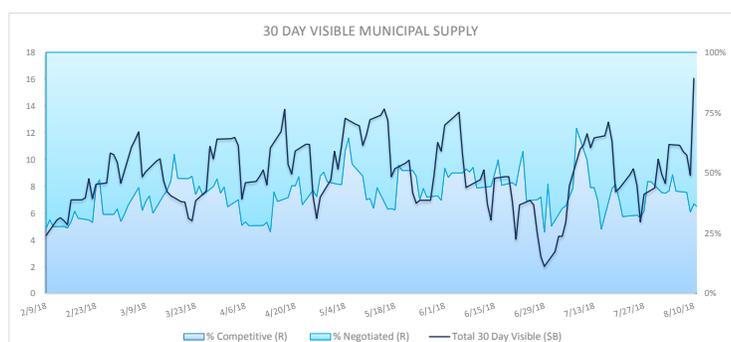
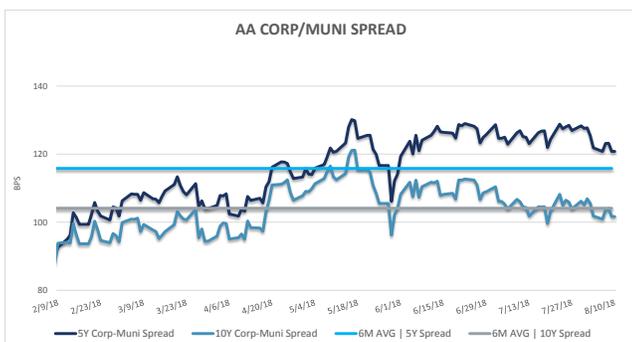
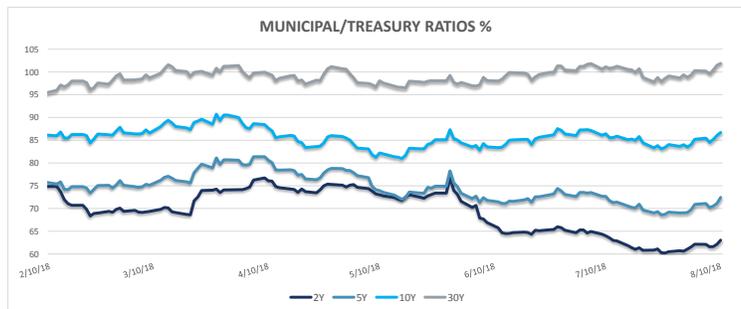
- Despite a late week rally on the heels of a collapsing Turkish Lira (lower by nearly 30% over the last 5 days) US Treasury yields remained well within their near-term ranges. The 10YR UST has now traded within a 12bp window since late-May as market participants struggle to reconcile better than expected US growth with muted global inflation readings and geopolitical/trade tensions.
- Helping stem some of the flight to quality rally in US rates was the higher than anticipated reading on July consumer prices. The Core CPI index rose to 2.4% during the month, a level not seen since 2008. While the Fed preferred PCE data still shows as sub 2% (1.9% for June), the steady rise in CPI since the beginning of the year will certainly help keep FOMC hawks on track for further hikes. Current probabilities show a 94% chance of a September hike and a 63% chance of a December hike.
- As the Treasury curve continues to flatten, the muni curve has reached its steepest level since mid-March. The spread between the 2YR UST and 30YR UST stands at just 43 bps while the spread between the 2YR AAA MMD and 30YR AAA MMD is currently 141 bps. Front-end Muni-to-Treasury ratios remain rich, however ratios toward the middle and longer-end of the curve are near recent highs. We currently believe it is advantageous to sell front-end munis into strength and focus on reinvesting in the 10 to 13 year portion of the curve where yields are hovering around year-to-date highs.
- Year-to-date issuance has reached ~\$195 billion, which is approximately 16% less than the same period last year, while net negative issuance has also crept higher (now approx. -\$30 billion). We expect net negative supply to increase throughout Q3 as redemptions and maturities will further outstrip supply. From a technical perspective, we continue to believe municipals should outperform their taxable counterparts over the near-to-medium term.
- On the credit front, Puerto Rico has reached a preliminary agreement between owners of sales-taxed backed COFINA bonds. The agreement will still need court approval, but, if allowed, would save Puerto Rico an estimated \$425MM per year for the next 40 years according to the Puerto Rican government. COFINA bondholders would swap their current holdings for new bonds with an implied recovery rate of approximately 93% for senior debt and 56% for junior (subordinate) debt. If approved, the agreement will be a huge breakthrough for the territory in lowering their overall debt burden, however work is still needed to address the long-term issues plaguing the economy.

## MARKET OVERVIEW

		8/3/18	8/10/18	Δ bps	1M Trend
Muni	2Y	1.64	1.64	0	
	5Y	1.99	1.99	0	
	10Y	2.51	2.49	-2	
	30Y	3.10	3.09	-1	
UST	2Y	2.64	2.60	-4	
	5Y	2.81	2.75	-6	
	10Y	2.95	2.87	-8	
	30Y	3.09	3.03	-6	



		7/12/18	8/10/18	1M Trend
MUNI/UST Ratios	2Y	63%	63%	
	5Y	71%	72%	
	10Y	86%	87%	
	30Y	101%	102%	



## 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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