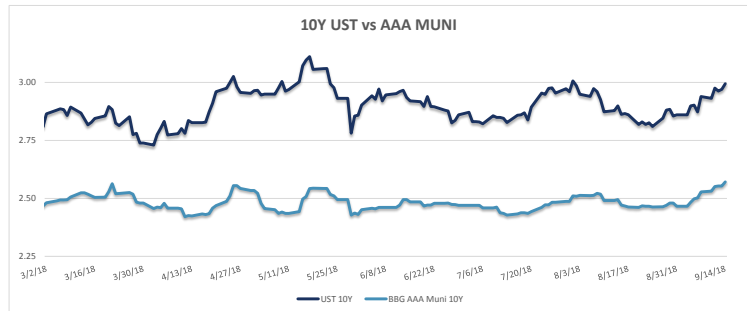


TRADING DESK COMMENTARY

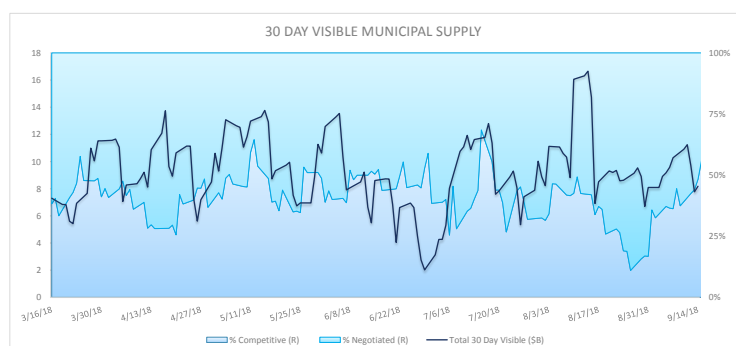
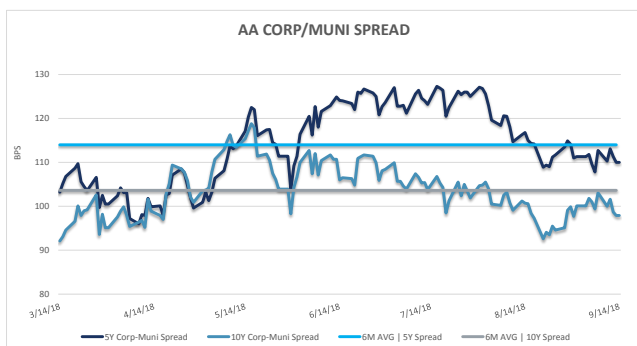
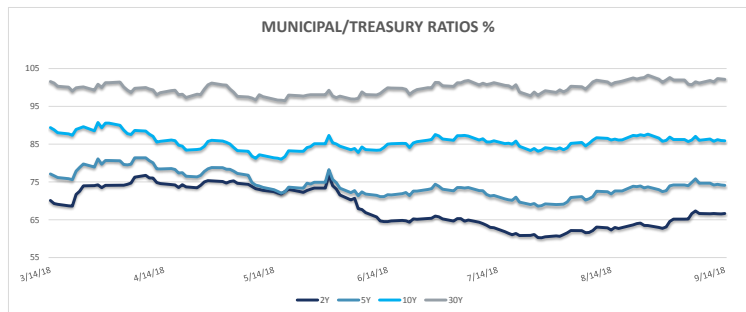
- Generally solid economic readings coupled with reports of renewed Sino-American trade talks have led markets to a risk-on tone for the past several weeks and seen intermediate UST yields rise by approximately 15bps since the beginning of the month. The 10YR UST now sits at 2.99%, a level not seen since May of this year.
- While Thursday's CPI release continued to show a well contained inflation backdrop, the longer-term trend of gradually firming prices remains intact. Retail sales, while mixed for August, showed that Americans remain confident in their spending and that growth for Q3 could again be higher than economists predicted (Atlanta Fed GDPNow ~ 4.42%).
- This week will bring a lighter calendar of economic data with housing stats being the most relevant. Traders' focus will instead be shifted to the back and forth news cycle surrounding renewed Chinese trade talks. Over the weekend several news outlets reported that President Trump asked aids to ready another \$200Bln in tariffs, while Chinese officials said that any additional tariffs could derail further negotiations before they even begin.
- Muni market technicals have shown signs of a reversing a recent positive trend. Over the summer months, demand for municipals far outweighed the dearth of supply, helping munis deliver positive returns from May through August. However, a pickup in supply is probable this fall which could transition the market from a net negative supply environment into a positive one. We remain cautious over the near term should this development materialize.
- Although fund flows into munis over the past month have been positive, the pace has certainly been slowing. Muni/UST ratios have, as a result, moved higher, with the largest move coming in the 2yr space. Investors dodging duration in front of Fed hikes had crowded into shorter munis this summer and are now perhaps taking advantage of more palatable absolute yields further out on the curve.
- On the credit front, not a single state government has a negative outlook to its credit rating, the first time since the financial crisis. The turnaround in state-level finances reflects the nation's economic expansion, partly driven by increased tax collections and reduced spending on Medicaid, due to low unemployment throughout the country. States are using the excess revenue to increase reserves and pay down debt, boosting their ratings, while little support is trickling down to localities or going towards funding delayed infrastructure investment.

MARKET OVERVIEW

		9/7/18	9/14/18	Δ bps	1M Trend
Muni	2Y	1.80	1.85	5	
	5Y	2.11	2.15	4	
	10Y	2.53	2.57	4	
	30Y	3.14	3.20	6	
UST	2Y	2.70	2.78	8	
	5Y	2.82	2.90	8	
	10Y	2.94	2.99	6	
	30Y	3.10	3.13	3	



		8/16/18	9/14/18	1M Trend
MUNI/UST Ratios	2Y	63%	67%	
	5Y	73%	74%	
	10Y	86%	86%	
	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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