



INTERMEDIATE MATURITY MUNI



COMMENTARY – SECOND QUARTER 2018

MACRO OVERVIEW

Short rates continued to drift higher over the quarter as the FOMC hiked in June for the second time this year. Record low unemployment and moderately stronger inflation readings in early May pushed yields on the 10YR UST to 3.12%, a seven year high, while the 30YR UST touched 3.24%, an approximate four year high. However, a nationalist's party election threat in Italy reminded investors of just how fragile the EU remains and a modest flight to quality ensued. Economic data in June did little to push rates out of the new lower range with intermediate yields finishing a bit more than 10 basis points higher on the quarter. Even with the second rate hike this year and a seemingly more hawkish outlook on the economy and inflation from the Fed, a flatter yield curve remains the norm for now.

- The spread between the 2YR UST and 30YR UST is currently 39bps, tightest since the summer of 2007. The front-end of the curve will continue to react to Fed policy while the long-end is currently contained by trade tensions and subdued inflation.
- The likelihood of gradual and deliberate rate normalization is apparent with the probability of a September Fed rate hike at approximately 70%, with an additional hike in December at nearly 50%.
- Increasing trade disputes could threaten global economic growth and could offset the economic gains derived from tax cuts here in the U.S.
- Low unemployment (4.00%) has yet to lead to meaningful wage pressures.

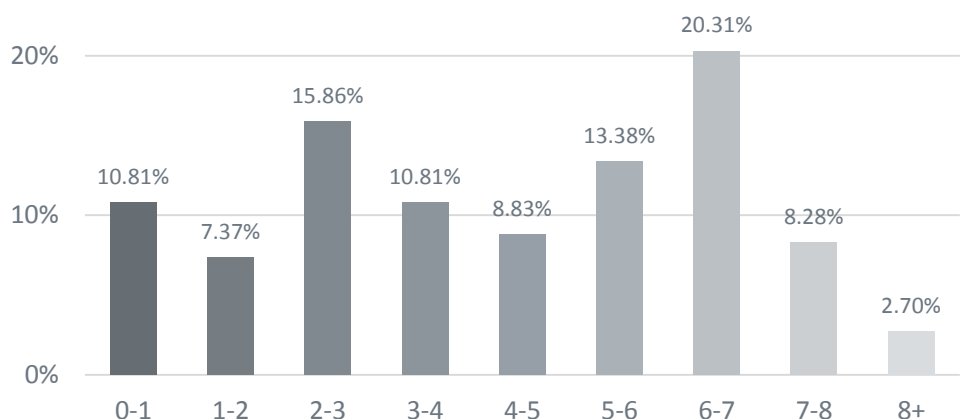
MARKET DYNAMICS

A general lack of supply during the quarter continued to be the primary theme in the municipal market. Although not as drastic as Q1 (down ~30%) issuance in Q2 fell approximately 20% quarter-over-quarter. Performance across the curve was positive, helping to offset some of the negative returns the market realized in Q1. Bank selling began to subside during the period while inflows, especially from the retail space, remained steady. Front-end Muni-to-UST ratios closed out Q2 at still extremely rich levels, while the 10YR and 30YR ratios finished around near-term averages. We continue to believe that tepid summer supply will be met with robust coupon and maturity reinvestment dollars, thus munis, from a technical standpoint continue to look attractive. Any widening of Muni-to-UST ratios, especially on the long-end of the curve could also spark interest from non-traditional and cross over buyers.

COMPOSITE CHARACTERISTICS

Duration: 4.27 yrs
Yield-to-Worst: 2.32 %
Yield-to-Maturity: 2.50 %
Maturity: 6.13 yrs

DURATION PROFILE





INTERMEDIATE MATURITY MUNI



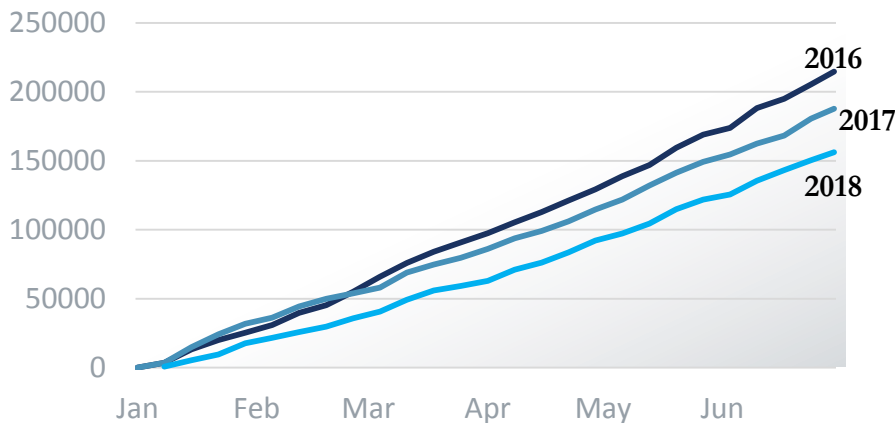
COMMENTARY – SECOND QUARTER 2018

PERFORMANCE NOTES

Strategy performance was in-line to slightly below benchmarks for the quarter. Mild underperformance was mainly attributed to the rally in May which the slightly longer benchmarks benefitted from. However, YTD performance is now only off approximately -0.40% after withstanding a meaningful selloff in both January and February. The muni curve was essentially flat for the quarter with the 5YR portion of the curve performing best. For the quarter, the 2YR maturity was lower by 1bp, the 5YR lower by 5bps while the 10YR was higher by 4bps and the 30YR was flat. Munis largely outperformed their Treasury counterparts during the quarter most notably in the short-end of the curve where yields on the AAA index have held firm despite the Fed pushing short taxable rates higher.

TOTAL MUNICIPAL ISSUANCE YOY (\$BLN)

SOURCE: BLOOMBERG



"From a technical standpoint Munis continue to look attractive over the near-term."

The supply-demand component looks encouraging, specifically over the next several months

... as large coupon and maturity redemptions will be chasing light primary supply."

10 YR MMD

SOURCE: BLOOMBERG



CONTACT US

804.648.3333

WWW.CAPRINBONDS.COM

Media Contact:

aplotkin@caprinbonds.com

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INTERMEDIATE MATURITY TAXABLE



COMMENTARY – SECOND QUARTER 2018

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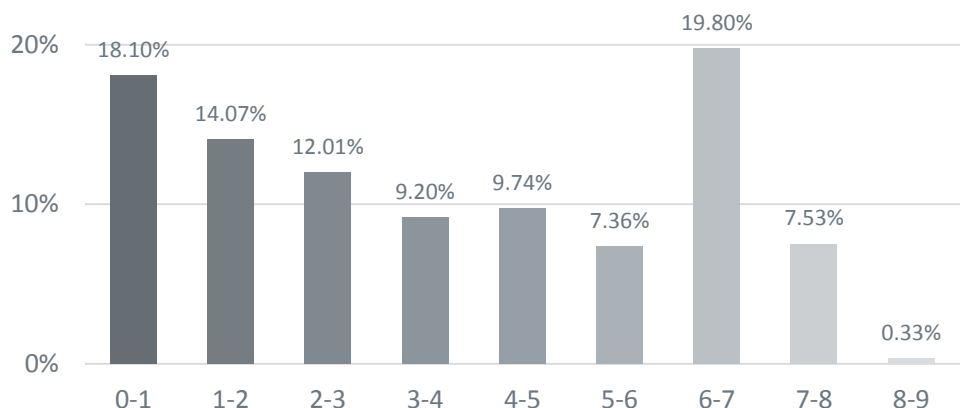
MARKET DYNAMICS

Modestly higher interest rates, choppy equity markets, and robust corporate supply led to further widening of investment grade credit over the quarter. As mentioned in our last strategy update, the move in spreads continues to be very orderly, with the Bloomberg Barclays US Aggregate Credit Index closing the period at +116 basis points, still within 2017 ranges. From a technical standpoint corporates could still face modest spread pressure from here as higher absolute rates have shifted some of the buying away from intermediate and longer-dated risk products, and heightened corporate acquisition activity should continue to keep supply elevated. With this said, corporate credit health remains sound and has actually strengthened of late, with revenue, earnings, and gross leverage metrics all improving in 2018 (JP Morgan). We continue to view this modest retracement in spreads as healthy for the taxable markets, and one that in the near-to-medium term can offer some incremental yield and renewed value in corporate debt.

COMPOSITE CHARACTERISTICS

Duration: 3.57 yrs
Yield-to-Worst: 3.13 %
Yield-to-Maturity: 3.14 %
Maturity: 4.36 yrs

DURATION PROFILE





INTERMEDIATE MATURITY TAXABLE



COMMENTARY – SECOND QUARTER 2018

PERFORMANCE NOTES

Although corporate spreads were wider on the quarter, the return impact was modest as the sector's incremental yield versus US Treasury and GSE positions continued to help offset the softness. Overall performance during the period was in-line to slightly ahead of benchmark as the strategy's adjustment to a shorter maturity and duration profile early in the year was advantageous as yields crept higher in April and May. Looking forward, our outlook for interest rates continues to call for higher front-end yields with the FOMC recently upgrading their forecasts to four 25 basis point rate increases in '18 and three in '19. Intermediate and longer maturities are unlikely to move higher in lockstep as global trade tension and still low inflation help buffer elevated supply from U.S. Treasury issuance and a shrinking Fed balance sheet.

10-YR US TREASURY YIELD

SOURCE: BLOOMBERG



"We continue to view this modest widening of corporate spreads as ...

healthy for the taxable markets, and one that in the near to medium term can offer some incremental yield

... and renewed value in corporate bonds."

US CREDIT INDEX

SOURCE: BLOOMBERG



CONTACT US

804.648.3333

WWW.CAPRINBONDS.COM

Media Contact:

aplotkin@caprinbonds.com

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SHORT MATURITY MUNI AND LOW DURATION TAXABLE

COMMENTARY – SECOND QUARTER 2018



MACRO OVERVIEW

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- The likelihood of gradual and deliberate rate normalization is apparent with the probability of a September Fed rate hike at approximately 70%, with an additional hike in December at nearly 50%.
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- Low unemployment (4.00%) has yet to lead to meaningful wage pressures.

MARKET DYNAMICS

A further increase to the Federal Funds rate was all but guaranteed going into the June FOMC meeting, but the more hawkish sentiment from committee members was not widely expected by market participants. While no one adjustment in statement language or forecasts was monumental, the overall tone certainly portrayed increasing confidence in both the state of the economy and the need to continue down a deliberate path of rate increases. Of particular importance to front-end investors were the upgraded forecasts now showing four 25 basis point increases in '18, and at least three increases in '19 as near-term growth and inflation rise a bit more quickly than previously estimated. While we continue to respect the central bank's forecasted path to higher rates within strategy positioning we are still cautious as inflation gauges have failed to sustain significant momentum, and more recently as global trade tensions have escalated.

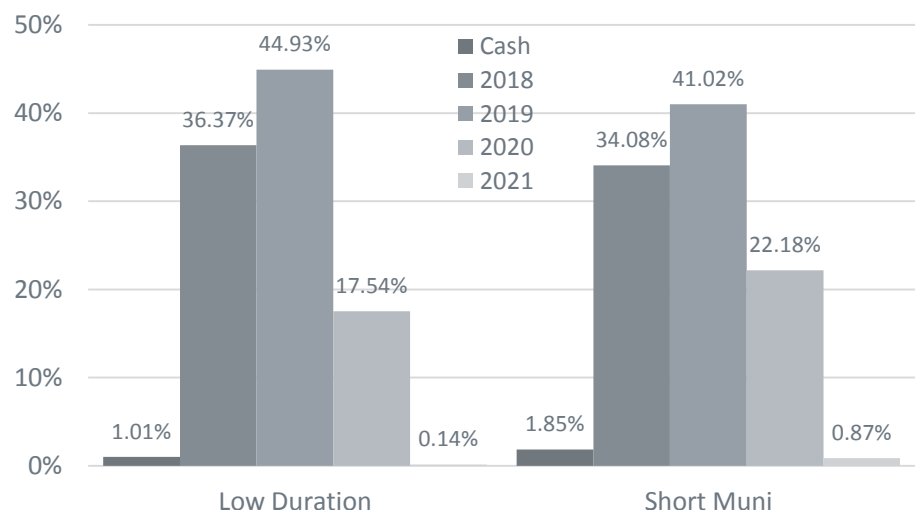
LOW DURATION

Duration: 1.26 yrs
Yield-to-Worst: 2.67 %
Yield-to-Maturity: 2.67 %
Maturity: 1.31 yrs

SHORT MUNI

Duration: 1.34 yrs
Yield-to-Worst: 1.80 %
Yield-to-Maturity: 1.82 %
Maturity: 1.41 yrs

MATURITY PROFILE





SHORT MATURITY MUNI AND LOW DURATION TAXABLE

COMMENTARY – SECOND QUARTER 2018

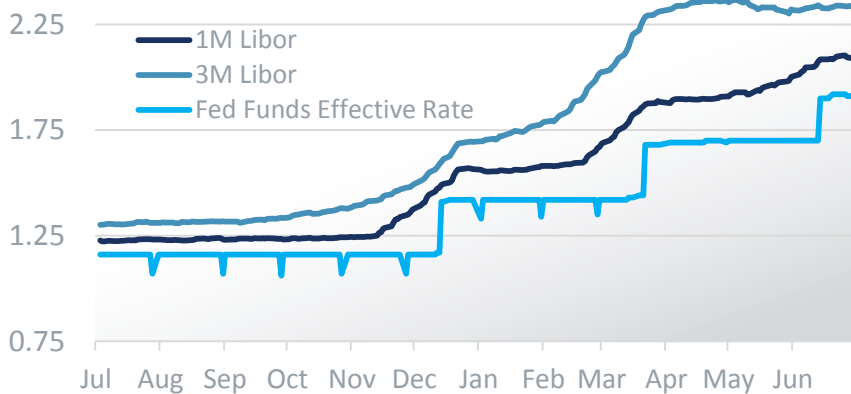


PERFORMANCE NOTES

Short maturity yields again rose gradually over the period as the FOMC continued down its deliberate path of rate increases. The 2YR UST ended June at approximately 2.52%, a level not seen in nearly a decade. Although rising short term yields have been a headwind for the strategies from a price return standpoint, steadily increasing portfolio yield levels have been able to overcome this and still produce positive total returns through the first half of the year. Corporate credit continued to provide incremental income despite spreads widening further on persistent supply and equity volatility. Our near-to-medium term view still sees corporates supported by strong economic growth, and healthy earnings. We continue to favor a shorter position on the yield curve within low duration taxable portfolios and see the more laddered structure of the short maturity municipal strategy continuing to benefit from a consistent stream of reinvestable cash flow.

1M, 3M LIBOR RATES

SOURCE: BLOOMBERG



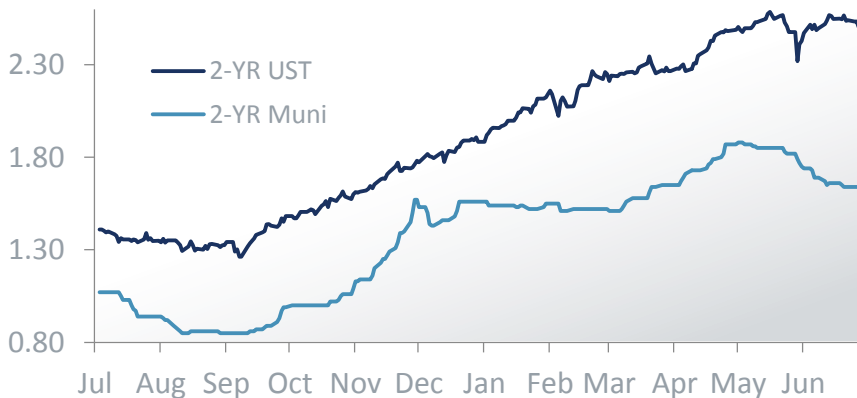
“Of particular importance to front-end investors were the updated FOMC forecasts now ...

showing four 25 basis
point increases in '18

... and at least three increases in '19 as near-term growth and inflation rise a bit more quickly than previously estimated.”

2 YR UST vs 2 YR MUNI

SOURCE: BLOOMBERG



CONTACT US

804.648.3333

WWW.CAPRINBONDS.COM

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aplotkin@caprinbonds.com

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ETF STRATEGIES

COMMENTARY - SECOND QUARTER 2018



STRATEGY COMMENTARY

- Despite the upward momentum of interest rates carrying well into the quarter, culminating with a 3.12% on the 10YR UST, trade disputes and equity market uncertainty quickly returned intermediate and longer-term yields to recent ranges. Closing the quarter at 2.86% the 10YR UST was still higher by 13 basis points, but absorbed less than half of the Fed driven movement that carried front-end yields up by more than 25 basis points.
- For the second half of 2018 we continue to see shorter maturity yields rising in concert with a Fed path that now calls for four 25 basis point rate increases in '18 and at least three in '19. Intermediate and longer maturities are unlikely to move higher in lockstep as global trade tensions and still low inflation help buffer elevated supply from U.S. Treasury issuance and a shrinking Fed balance sheet. This could result in an even flatter curve, but at moderately higher yields over the next 12-24 months. As such the strategies remain at slightly more defensive duration positions to help buffer against those risks.
- A general lack of supply during Q2 continued to be the primary driver in the municipal market with issuance down ~20% quarter-over-quarter. Bank selling began to subside during the quarter while inflows, especially from the retail space, remained steady leading to another period of outperformance versus taxable alternatives. A comparison of broad market ETFs shows AGG (iShares US Aggregate) returning -0.18% versus VTEB (Vanguard Tax-Exempt) at +0.87% for the quarter. We remain constructive on the municipal sector through the rest of 2018, and continue to overweight tax-exempts in our Opportunity Plus strategy. High Yield Munis again outperformed over 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.
- Choppy equity markets and robust supply led to further widening of IG corporate spreads over the quarter, but still within 2017 ranges. Corporate credit health though remains sound and has actually strengthened of late, with revenue, earnings, and gross leverage metrics all improving in 2018 (JP Morgan). We continue to view this modest spread widening as healthy for the taxable markets, and one that in the near-to-medium term can offer some incremental yield and renewed value in corporate debt. Offsetting some of the drag in high-grade corporates was a more stable period for high yield corporate prices, allowing ETFs like SJNK (Core Plus strategy allocation) to return much of its yield to investors and produce a total return of approximately 1.00% for the quarter.

FIGURE 1: RELATIVE VALUE (% PREM/DISC AS OF 6/29/18)

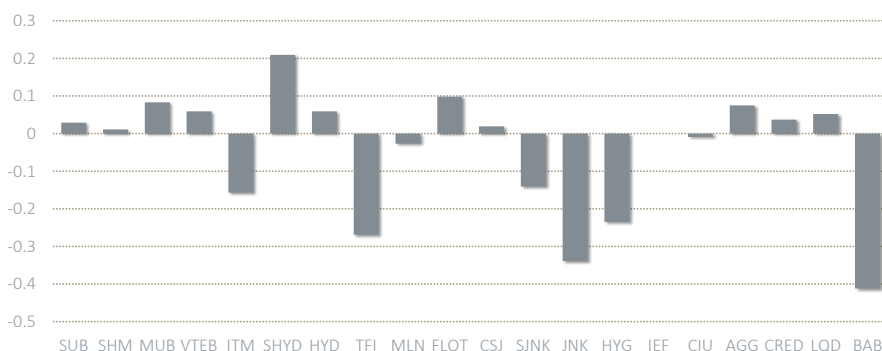
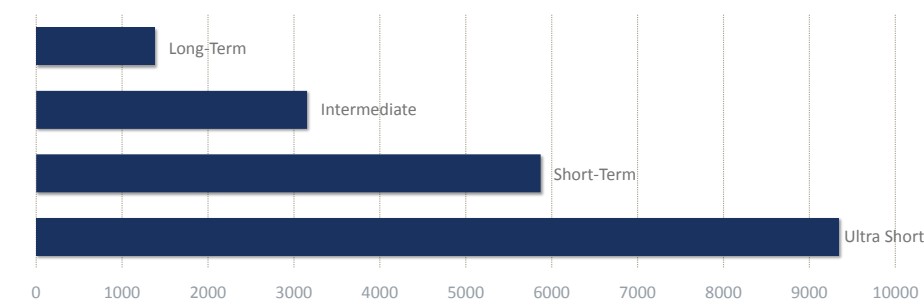


FIGURE 2: QUARTERLY FUND FLOWS BY MATURITY (\$MM)



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

CAPRIN ETF STRATEGIES

OPPORTUNITY PLUS ETF

AS OF: 6/30/2018

Duration: 4.69 yrs

Highlights: Shorter Duration Positioning,
Muni 60%/Taxable 40%,
Maintain Allocation to
High-Yield Muni

MUNI PLUS ETF

AS OF: 6/30/2018

Duration: 4.50 yrs

Highlights: Shorter Duration Positioning,
Maintain Allocation to
High-Yield Muni

CORE PLUS ETF

AS OF: 6/30/2018

Duration: 5.17 yrs

Highlights: Shorter Duration Positioning,
Maintain Credit Allocation

FIGURE 3:

ETF TICKER	QRTLY TREND	% Q RETURN	STD DEV
SUB		0.40	0.22
SHM		0.64	0.14
MUB		0.69	0.37
VTEB		0.87	0.16
ITM		0.75	0.09
SHYD		2.05	0.11
HYD		2.67	0.16
TFI		0.45	0.14
MLN		0.62	0.09
FLOT		0.67	0.04
CSJ		0.40	0.12
SJNK		0.98	0.08
JNK		0.31	0.17
HYG		0.63	0.33
IEF		-0.10	0.67
CIU		-0.24	0.36
AGG		-0.18	0.50
CRED		-0.89	0.72
LQD		-1.53	1.01
BAB		-0.70	0.22

* 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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