General Market

The market was squarely focused on a variety of labor data this week. While Continuing Jobless Claims rose and ADP Employment came in a little under expectations, the rest of the data painted a resilient picture. Initial Jobless Claims fell, and the JOLTS report showed higher than expected openings. The ISM Services report also printed strongly, with a huge jump in Prices Paid. While UST yields drifted higher throughout the week on the back of this news, the cherry on the cake came from Friday's blowout jobs report that saw Nonfarm Payrolls unexpectedly jump over 90k more than consensus. Stocks and bonds saw a major sell-off after traders adjusted their bets that further Fed cuts will be put on the back burner. With the front end rising, Fed Fund futures pushed out the probability of the next cut out to September. The 30y briefly crossed over 5% and the 10-30y tenors closed at their highest levels since October 2023.

IG Munis

The muni market kicked off the post New Years week with a positive tone as year-end tax driven outflows were put to bed and flows turns positive. A light calendar and Jan 1st reinvestment capital also added to the uptick in demand. However, as UST yields climbed and next week's sizable primary calendar came into focus, investors were hit with a dose of reality. With valuations at levels that are unattractive for crossover buyers and forecasters calling for a record year of issuance, it will be difficult for the IG market to stand its ground absent a major shift lower in treasury yields, which seems less and less likely by the day. Still, BWIC activity fell 27% relative to the elevated levels seen in the final weeks of the year, while customer purchases picked up slightly. While the fresh capital helped the muni market outperform this week in all major tenors except for the 30y, benchmark yields still moved higher by 8-17bps. It seems there will be a bit of a tug of war playing out throughout the year as the heavy supply forecast coupled with revamped treasury expectations is likely to challenge performance, but the move to higher yields may prove attractive enough for investors to shift capital back into the market.

HY Munis

The HY market was not immune to the sell-off this week, though it seemed many investors preferred to wait it out on the sidelines. Mid-grade credits mostly fell alongside the MMD moves as the unattractive spreads entering the year leave little room for further tightening. However, higher yielding names generally outperformed the market. Even a generic credit like Buckeye Tobacco closed the week with bonds trading away at 5.88%, only 10bps higher than last Friday despite the 17bp move in MMD. A different name, like recently issued MIDA Mountain Village saw bonds trade 4bps better on Tuesday when the broader market was unchanged and then traded flat on Wednesday when the market was off 10bps. With HY funds leading the pack and taking in $527mm of inflows, we expect investors will continue to look towards new issues and smaller, less common names that still trade at higher yields as spreads on the generic portions of the market just don't make sense relative to much higher quality options.

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