General Market

Fixed income markets kicked off the holiday shortened week with a sigh of relief after President Trump declined to address his tariff proposals amidst the initial flurry of executive orders. The rally was short-lived as treasury yields drifted higher in the middle of the week on limited news as it seemed investors were focusing once again on the potential inflationary effects of the administration's economic policies. Friday's big miss in Services PMI, its lowest reading since April, as well as weakening consumer sentiment helped spark a small rally in treasuries. On the week, the curve ended mostly unchanged, with some spots just 1bp lower.

IG Munis

After underperforming last week, but seeing a late surge in buying activity, the muni market picked up right where it left off. This led to outperformance across the market as the benchmark AAA MMD curve saw yields fall 2-8bps, with the largest moves coming from the shorter tenors favored by SMA accounts. Dealers reported strong interest in the secondary market from both real money and fast money accounts amidst disappointing new issue allocations and stabilizing rate markets. JPM's compilation of weekly metrics showed a 51% increase in secondary purchases relative to the past 5 weeks, while customer bid wanted activity was mostly flat. Part of the demand was due to fund flows, while attractive absolute yields on a tax adjusted basis seem to be catching investor's eyes. Lipper reported a surge of cash hitting mutual fund coffers with $2.029bn of inflows on the week , of which $1.473bn were into IG funds. On the new issue front, spreadier names saw very strong interest. For example, NR/A/A+ St Luke's Health system was 15x oversubscribed and bumped 15bps. That said, given how tight credit spreads are relative to ultra-high grades, deals like this don't provide all that much room to run on the break. By Friday, bonds were trading 2bps worse than they priced.

HY Munis

The HY market faced a similar dynamic as their IG counterparts. Lipper reported $556mm of inflows, further adding to the cash stockpiles that funds are having difficulty deploying. New issues were sparse with no HY deals above $50mm in size. Dealers reported strong inquiry, though the market felt a bit heavy by Thursday after two days of treasury losses. Overall trade volumes were light and reflected a somewhat unchanged market. Benchmark names like Buckeye Tobacco drifted a few bps wider, but there were several strong inquiries out there for more off-the-run names. With several new interval funds being launched this year, we expect the HY market to be well supported as investors chase yield but continue to see limited value in the upper end of the quality spectrum where spreads rival much higher rated alternatives.

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