General Market

US markets opened the week with a major risk-off move sparked by a tech stock selloff following breakthrough advances in Chinese AI technology. Treasury yields rallied 8-10bps on Monday and then barely budged the rest of the week. The committee left the policy rate unchanged as expected but the accompanying statement removed language around inflation making progress towards the Central Bank's 2% goal while stating that unemployment had stabilized. This unexpected hawkish tilt surprised investors and led to an initial sell-off. However, Chair Powell clarified in his press conference that he still sees the policy stance as meaningfully restrictive and as the new administration's policies become clearer, it may be appropriate to cut rates again if inflation continues its current path. The calm in rates markets carried through until Friday afternoon when reports emerged from the White House that 25% tariffs on imports from Mexico and Canada and 10% tariffs on Chinese goods would become effective the next day. This sparked an initial curve steepening, but the panic subsided into the close. When all was said and done, yields still ended the week 6-10bps lower while expectations rose for 2 cuts by year-end.

IG Munis

The muni market largely followed the treasury action this week, with the benchmark MMD curve rallying 5-7bps on Monday and then little to no movement the rest of the way. The tone was strong after another solid week of inflows with Lipper reporting $742mm of mutual fund flows, while the primary calendar was kept at bay by nature of it being an FOMC week. With the increase in demand, dealers reported strong two-sided trading activity. JPM reported a 33% increase in customer bid-wanteds, while purchases also rose ~30% to match. With next week's heavy Feb 1 reinvestment capital and forward new issue calendar shaping up to be lighter than feared, the muni market has some wind in its sails, but participants should temper their expectations amidst historically tight valuations and rate volatility expected from the various economic policies that are dripping out by the day.

HY Munis

The HY market had a relatively uneventful week. Things started off slowly as offerings were up 7-10bps on Monday's flight to quality treasury rally, while bid sides were only 2-3bps better amidst the caution. As rates stabilized the rest of the week, HY investors grew more desperate in their bid sides and ultimately turned things around to outperform high grades. As an example, benchmark bellwether Buckeye Tobacco traded 5.70%->5.69% on Friday morning after a 5.80% dealer purchase the week before. New issues were few and far between, which led to a larger focus on the secondary market. Investors remain frustrated by the lack of spread tightening available on mid-grades given the proximity of their yields relative to AA and better credits as well as impending supply in sectors like hospitals and airports. Instead, we saw dealers report several inquiries for yieldier sectors like charter schools and land deals, though trading activity was sparse. We continue to believe that most HY performance will come from carry this year, with spread tightening limited to select off-the-run names and new issue concessions.

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Market Commentary

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