General Market

Markets kicked off the week in disarray over President Trump's follow-through on the tariffs announced Friday, however, deals were quickly struck to delay implementation. The flight to quality rally stalled out, but treasury yields continued to decline throughout the week after a string of weaker economic readings. The JOLTs report showed a sizable 500k drop in job openings in December, Factory and Durable Goods Orders fell, and the January ISM Services Index printed at its weakest level since June. Friday's Nonfarm Payrolls Report took the wind out of the market's sails after the two-month revision added an extra 100k jobs, while average hourly earnings accelerated to 4.1% annually. The resilience in the labor market led market commentators to declare that the Fed will remain on hold for awhile as they wait to see the effects of the administration's fiscal policies. When all was said and done, the yield curve flattened on the week, with the 2y rising 9bps while the 30y fell 10bps.

IG Munis

In the beginning of the week, dealers reported limited activity from real money accounts as the economic volatility over the past few weeks had left participants with limited conviction. As the week wore on, a manageable new issue calendar amid seasonally strong reinvestment cash and another week of heavy inflows (Lipper reported +$1.124bn) was enough to get investors off the sidelines. JPM reported a jump in both customer purchase and sale activity with dealer sales up 26% relative to recent averages, while BWICs were up 20%. The benchmark MMD curve saw yields fall 4-8bps, firmly outperforming treasuries up front but underperforming in the longest tenors. Next week's primary issuance is slated to jump to ~$12bn but is very top heavy, including a $2.5bn nonrated deal for Brightline West and $1.5bn for NYC TFA.

HY Munis

The HY market kicked off the week with a bang after treasuries rallied by double digits following the tariff implementation, but the gains faded quickly alongside the broader market reversal. Dealers reported that most of the activity was driven by trading accounts and that real money clients were content to sit on opportunity rather than chase bonds given the ongoing volatility. However, like the IG market, the relative apathy quickly turned into a food fight by Wednesday as yields continued to fall. New issues were few and far between, but the nonrated Brightline FL mandatory put deal and two prepay gas deals all did very well. Themes in the secondary market largely echoed prior weeks where dealers have multiple inquiries for "different name" HY bonds across a variety of sectors, though few holders are willing to part ways with their positions. Next week's $2.5bn Brightline West deal, a planned high-speed passenger rail system connecting Las Vegas to Southern California, will be an interesting test of risk appetite for the market.

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Market Commentary

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