General Market

Markets were roiled this week by a dramatic escalation in trade tensions, despite a better-than-expected payrolls report. The long-anticipated April 2nd “Liberation Day” arrived with tariff announcements that were far more severe than initially telegraphed. While early-week speculation had investors hoping for narrow, sector-specific measures, President Trump surprised markets by unveiling broad, country-based tariffs, many of which were in the 30–40% range. China responded in kind, levying a 34% tariff on U.S. goods by week’s end. Risk sentiment deteriorated sharply, fueling a flight to safety across global markets. Treasury yields plummeted in response, falling 23-28bps while the 10y closed below 4% for the first time since October. Fed Chair Powell acknowledged the impact of tariffs will be significantly larger than previously expected, causing both higher inflation and slower growth, but emphasized that the Fed doesn't need to be in a hurry to adjust their policy as they await more clarity on its impact.

IG Munis

The muni market kicked off the week in catch up mode after demand for high-quality paper accelerated as investors grew more comfortable stepping in at year-to-date highs in yield and wides in ratios. Munis further benefitted from the flight to safety with double digit MMD bumps to close out the week. Lipper reported the 4th consecutive week of outflows, albeit a much more modest -$136mm for IG funds compared to recent readings. With outflows subsiding and investors growing more optimistic, JPM reported customer BWIC volume fell 5% relative to the elevated volumes of the past few weeks, while hit rates also jumped. At the same time, secondary market customer purchases rose 9% as dealers reported a broad assortment of accounts all out in full force trying to find paper. The new issue market continued to offer attractive concessions to the secondary, causing heavy oversubscriptions and price revisions. Even a generic credit like TX PSF saw a new deal bumped 10bps on the reprice. AAA-rated IL Clean Water was 15x oversubscribed in its longest tenor, bumped 8bps, and traded up 29bps by week's end. After treasuries pared back some of their gains Friday afternoon, the muni market turned in its first weekly outperformance in a month after the benchmark AAA MMD curve saw yields fall 29-34bps. While we recognize the inherent volatility could easily cause a swift reversal, we still prefer the up in quality trade.

HY Munis

The HY muni market benefitted from the broader market rally, but cracks began to form around the end of the week as global recession fears drove flows away from risky assets. Lipper reported the first weekly outflow from HY funds this year, but we suspect this may not be an isolated event. Early on, dealers reported that accounts were coming out of the woodworks and were much more amenable to previously unloved sectors like Healthcare 4s. A BB-rated student housing deal at Florida Institute of Technology was heavily oversubscribed and bumped 16bps. In the secondary, Buckeye tobacco traded as strong as 5.70->5.67% early Friday morning, up ~20bps on the week. However, as the grim mood picked up steam globally, so did HY investor outflows. A barrage of bid lists on Friday by both ETFs and mutual funds caused a sharp pullback in investor risk appetite. Buckeyes traded 13bps cheaper to 5.80% despite MMD bumping 8bps. Many items from the bid lists didn't trade, presumably due to minimal bidder interest, but the ones that did tended to trade at least 10bps behind evals. We have long cautioned that HY spreads were too divorced from reality, and it seems as if this is finally coming home to roost. If this new tariff regime remains in place, we expect there will be far more attractive opportunities to put excess capital to work in beaten down names in the future.

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