

General Market

As the ceasefire in the Middle East held, investors turned their attention to speeches by various Fed officials which signaled more support for rate cuts this year. Chair Powell said that the Fed could ease sooner if inflation comes in weaker than expected or if the labor market deteriorates. He also indicated that the committee would have likely lowered rates several times already if they weren't weary of the inflationary effects the new tariffs may impose. Reports emerged that President Trump, frustrated by the Fed's lack of action, is considering naming Powell's successor well before his term ends next year, presumably so an ally can start preparing the market for future rate cuts. Taken together, participants ramped up their bets on rate cuts for the year, adding another 0.5 cut, while projecting a 100% chance the first one occurs in September. As a result, the front end of the yield curve led the way lower with yields falling 18bps while the long bond fell 6bps.

IG Munis

The muni market continued its streak of limited volatility and price movements, much like the rest of the month. The benchmark AAA MMD curve saw yields fall 4-5bps in the shortest maturities but was unchanged from 12y on out. Dealers reported strong inquiry across the board for "anything priced attractively", but the primary market continues to be the star of the show with deals pricing with generous spreads and attracting heavy subscription levels. As ratios and after-tax spreads drift wider, especially on the long end, both sell side and buy side commentators seem to agree that the market is cheap but are struggling to identify a catalyst to propel muni outperformance. While we saw a slight decrease in issuance this week and next week will be affected by the July 4th holiday, the fact remains that the market is set to absorb a record amount of issuance this year. Next week will bring July reinvestment cash, the highest of the year, but the primary calendar picks back up over the rest of the month. Fund flows need to be markedly higher to drive true outperformance. Lipper reported just \$77mm of inflows this week, with a sizable \$390mm coming out of mutual funds. A more dovish Fed or an economic downturn that drives investors into the asset class would certainly help, but otherwise we are likely to drift wider until crossover buyers find it cheap enough to enter the market. On the bright side, investors with a longer-term horizon are getting compensated with generous after-tax yields, with many HG deals pricing >8% on a tax-equivalent basis.

HY Munis

The HY market ended the week with mixed performance. Several benchmark names traded unchanged to a few bps wider as investors eyed new deals and wider spread names. Buckeye Tobacco traded 5bps weaker, while AGM insured Brightline Florida was purchased

at the same 5.38% as last Friday. In the mid-grade space, dealers reported balanced two-way flows and more customer orders on bid wanted lists than they had recently seen. As has been the case, customers remained focused on "different" names as well as structures that are not available in the primary market. Several inquiries were shown around for senior living and development district paper. On the new issue front, a \$305mm BB+ rated deal for Keiser University ended up about 1.5x oversubscribed, an encouraging sign in a sector that has faced challenges and investor skepticism. Another large deal, a \$250mm non-rated UT development district was 15x oversubscribed, bumped 12.5bps and was bid up a further 27.5bps on the break. With the post-Liberation Day price distortions all pretty much corrected by now, HY investors will find it increasingly more challenging to uncover credits or sectors that are left behind. Monetizing the new issue concession continues to be a worthwhile trade, but we expect most portfolio performance will come from carrying higher running yields rather than further spread compression.

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Market Commentary

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