General Market

With a very light economic calendar, the main focus across markets this week was President Trump's trade policy as his 90-day pause in implementing the tariff rates set on Liberation Day were set to expire on Tuesday. After announcing a new deadline of August 1st, markets oscillated back and forth trying to figure out whether or not this new date would stick. Treasury auctions showed surprisingly strong demand which helped pull yields lower on Wednesday, but as the President unveiled further details of his policy, markets grew concerned about the inflationary impacts of higher-than-expected tariffs. These included new rates on several important trading partners ranging from 25-40%, a 50% tariff on copper, and an across the board 15-20% levy on most countries. Further, he said there would be no additional extensions beyond the August 1st deadline. As a result, the treasury curve bear steepened, with the bulk of the losses coming on Friday as the curve finished off 2-10bps on the week.

IG Munis

The muni market seemed to ignore treasuries this week, marching to its own beat. The benchmark AAA MMD curve saw yields lowered by 6-7bps up front and rose just 1bp out long, with all the movement occurring on Monday and Tuesday. The main driver of the relative strength was the sizable July 1st reinvestment cash that was put to work this week. Lipper also reported the 11th consecutive week of positive fund flows, as $295mm were deposited into IG funds. Dealers reported strong two-way flows amidst plenty of customer inquiries while trading volumes were mostly in line with recent averages. That said, the ongoing record new issuance continued to keep any sense of urgency at bay as ~$14bn of deals hit the market. These deals generally did well, especially in shorter maturities, but some borrowers had a harder time gaining traction. For example, there were at least 15 different sizable TX school district deals backed by their PSF insurance program leading to several price cuts and widening as the week wore on.

HY Munis

The HY market underperformed this week as investors pushed back against the aggressively tight spreads most bonds have traded to over the past few months, while better opportunities exist in the IG space or in new issues. Benchmark names like Buckeye Tobacco traded off 10bps from its pre-holiday levels, while a recent new issue for a large development deal in UT also saw bonds close out the week 10bps worse than where it traded up to on the break. Demand for mid-grades in the tollroad and airport space waned as $1bn+ deals on the horizon for JFK Airport and a GA Tollroad left investors on the sidelines expecting that wider spreads will be needed to clear the market. This week's new issues saw less interest than has been typical for the HY market over the recent months. A $253mm nonrated senior living deal was just ~2x oversubscribed, though bonds did trade up 12.5bps on the break. A $153mm BBB- Neg / BBB Neg hospital saw better subscriptions at 4-7x, but that was still a far cry from the 15-30x type levels the market has grown accustomed to. A smaller BB+ rated university got done, but was re-priced 35bps wider. Finally, a taxable Ba1 Neg / BB+ university that struggled to price over the past two weeks finally got across the finish line after the underwriters added several investor friendly terms as well as widening yields by over 100bps.

In the secondary market, some big news hit on Friday as Brightline Trains Florida, one of the largest issuers in the HY market with over $4.5bn in debt, announced plans to defer a July 15th interest payment on a non-rated series of muni bonds that contains a deferred interest mechanism. While the company said they intend to make up the deferred payments with operating cash flow or proceeds from new financings they are pursuing, this is just the latest in a string of disappointing news for the issuer, including much slower ridership growth than anticipated and a ratings downgrade on separate series of debt into HY territory. The formerly IG and now BB+ Neg-rated paper traded down 9pts relative to its $89 eval, which amounted to a 100bps jump in yield. Bonds traded at par as recently as May 5th.

Disclaimers

This report is confidential and a product of Birch Creek Capital, LLC (“Birch Creek”). It is intended solely for the information of the person to which it has been delivered by Birch Creek. The views and opinions expressed herein are subject to change without notice and Birch Creek is under no obligation to update or keep this information current or accurate. This report is being provided for general informational purposes only, and may not be disseminated, communicated, or otherwise disclosed by the recipient to any third party without the prior written consent of Birch Creek. Birch Creek Capital, LLC is registered with the Commonwealth of Pennsylvania as an investment advisor, which in no way implies that the state of Pennsylvania has endorsed any of the entities, products or services discussed herein. This commentary does not constitute an offer of to sell securities or the solicitation of an offer to purchase an interest in Birch Creek Credit Value Fund, LP (the “Fund”) or any other Birch Creek products. Such an offer may only be made to Accredited Investors or Qualified Clients and by means of a confidential offering memorandum. Additional information regarding the Fund or other Birch Creek products is available upon request.

Any information in this document related to past performance of the Fund or other investments managed by Birch Creek should not be relied upon as an indicator or guaranty of the future investment performance of any Birch Creek present or future investment vehicle. Birch Creek’s investment strategy involves the risk of loss. Any projections of future performance in this document are based on a number of assumptions and Birch Creek Funds’ actual performance may differ significantly from projected performance. There is no assurance that a portfolio will achieve its investment objective and please be aware that the portfolio may be subject to certain additional risks described in the Fund’s confidential offering memorandum.

Market Commentary

This report includes forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning, or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties, and contingencies. Forward-looking statements are not a promise or guaranty about future events.

Neither Birch Creek or our information providers shall be liable for any errors or omissions or inaccuracies, regardless of cause, or the lack of timeliness for any particular reason. The recipient should not assume that such information, even if accurate as of its date, is accurate as of the date hereof. None of Birch Creek is under an obligation to update the information contained in the materials attached hereto. THERE ARE NO WARRANTIES, EXPRESSED OR IMPLIED, AS TO ACCURACY, COMPLETENESS, OR RESULTS OBTAINED FROM ANY INFORMATION CONTAINED HEREIN.