General Market

In a week devoid of critical economic data, market participants keyed in reports around the US trade policy ahead of the upcoming August 1st tariff deadline. An agreement with Japan that called for a 15% levy and reports that the EU was closing in on a similar deal drove sentiment higher. Equity and fixed income investors alike cheered the news as the less punitive tariffs were taken to mean the economy would continue humming along without a surge in inflation or a big pullback in spending and corporate profitability. The treasury curve flattened with the 2y off by 4bps while the 30y rallied 7bps.

IG Munis

The muni market received a much-needed boost from fund inflows, turning positive after last week's outflow. Lipper reported inflows of $774mm into IG mutual funds, the majority of which went into ETFs. Despite another sizable new issue calendar, ultra high-grade bonds around 5% and ratios >100% of treasuries proved attractive for both retail investors looking to lock in long term tax-free income and crossover buyers who picked up spread relative to similarly rated taxable alternatives. Volumes picked up across the board with JPM reporting a +18% increase in customer BWICs alongside a +17% increase in customer purchases. In the primary, underwriters did well luring in buyers with yields that were too juicy to pass up. For example, the largest transaction of the week, a $1.5bn Aa1/AAA transaction for NYC TFA initially priced 29y bonds as 5s @ 5.07% when the 30y UST was trading at 4.94%. The deal was multiple times oversubscribed and bumped by 5bps. Likewise, a $700mm A+ rated Houston Airport deal saw strong subscriptions across most of the scale with the 30y AMT 5.5s getting bumped 3bps to 5.26%. It'll be interesting to see how things shake out next week given the Fed meeting, but besides multiple TX PSF deals, the new issue calendar is littered with mid-grade and yieldier deals that don't work for a typical IG investor.

HY Munis

After two weeks of underperformance, the HY market finally limped back to life. Some of the larger generic mid-grades like JFK airport lagged ahead of next week's $3.5bn BBB- GA Tollroad deal, but benchmark names like Buckeye Tobacco rallied 6bps alongside the broader MMD movements. A BBB+ Nash Healthcare deal saw 9-10x oversubscriptions and yields revised 10-11bps lower. However, investors continued to exercise restraint for below investment grade issuers. A $202mm Ba1 charter school got done with 1.5-3x subscriptions with the entire scale left unchanged, printing 30y bonds at 6.25%. But a $203mm nonrated Florida CCRC that had been floating around the market for a few weeks was unable to get done despite touting yields as high as 7.75%. With HY funds hit with their second consecutive week of outflows (-$202mm this week), investors beginning to question their speculative holdings, and returns running negative for the year, we think it makes sense for HY managers to take a cautious approach and wait for opportunities to come their way.

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