General Commentary

July's CPI report came in relatively in-line with expectations, though Services prices rose the most since the start of the year. With Goods prices not accelerating as some had feared due to the impact of tariffs, market participants felt the report was benign enough to give the Fed cover to cut rates in September. The next day, Treasury Secretary Bessent called on the Fed to cut rates by 150bps with a series of 50bp cuts over the next few meetings which drove yields lower. However, Thursday's PPI report showed producer inflation increasing by the most in 3 years, tempering the optimism that came after Tuesday's CPI reading. Several Fed officials also pushed back on talks of a 50bp cut, unwinding most of the previous rate gains. On Friday, the July Retail Sales report showed a confident consumer after a significant upwards revision to June's data and a solid July amidst more clarity on trade policy and a rebound in the stock market. The treasury curve steepened on the week with the 2y yield lower by 1bp while the 30y rose by 7bps.

IG Munis

The muni market has entered the summer doldrums as new issue activity began to slow and investor cash dwindled. The benchmark AAA MMD curve ended 0-2bps better up front and was 2-3bps worse out long. Lipper reported weekly fund outflows after 4 straight weeks of inflows, with IG funds losing $90mm. Activity slowed in the back half of the week after treasuries began to reverse course and was exacerbated by several new issues that were left with unsold balances. Dealers reported the market felt a bit weaker than the MMD moves implied, but a fresh round of mid-month reinvestment cash and an unusually light primary calendar next week may help buoy sentiment.

HY Munis

Many participants in the HY market were relieved to learn that the majority holders of Brightline Commuter Rail bonds negotiated changes to the security package in order to successfully roll the bonds another 10 months, albeit at a steep ~15% yield and an immediate 15pt haircut to the evaluation price. With the contagion risk off the table, HY activity mainly took its cues from the treasury market, up a few bps after Bessent's comments and reversed course to end weaker as rates rose. Buckeye Tobacco bonds traded off ~6bps, while JFK NTO 2060s went away 10bps worse than last Friday. However, dealers continued to report very strong inquiry for short yield items, while new issue did well. A $175mm Ba2 rated Basis Charter School deal was a riot and bumped, with bonds trading up another 7bps on the break. A $334mm nonrated senior living was also oversubscribed and bumped as much as 6-7bps in its 20y and 30y tranches. Investors clearly remain focused on new and different names that are less rate-sensitive than the higher quality, generic benchmark names that just act as a beta trade.

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Market Commentary
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