

General Commentary

Fixed income markets saw modest price action ahead of Fed Chair Powell's Jackson Hole speech on Friday morning, where he was set to unveil the Fed's new policy framework. President Trump called on Fed Governor Cook to resign after FHFA Director Pulte urged the DOJ to investigate her mortgages, further calling into question the Fed's independence. Jobless Claims rose, with Continuing Claims hitting the highest level since November 2021, showing continued pressure on the labor market. That said, several Fed officials made hawkish comments at Jackson Hole, indicating limited appetite to cut rates given inflation risks being higher than the risks to their employment mandate. Ahead of Friday's speech, the front end sold off ~3bps while the long end fell by 3bps. Though many expected Powell to open the door for a September cut, treasury yields still fell as much as 11bps in the front end after he said that "the baseline outlook and shifting balance of risks may warrant adjusting our policy stance". This brought the market implied probability of a September cut up to ~87% from 70% on Thursday, with the market firmly anticipating at least 2 cuts by year-end.

IG Munis

The muni market was quiet as August vacations were in full effect and the primary calendar slowed. Coming into Friday, the market drifted 2-3bps weaker out long while the AAA MMD scale was left unchanged in shorter tenors. Lipper reported \$2.33bn in inflows, however, the vast majority was driven by a single HY ETF that received >\$1.8bn after an allocation shift in a model portfolio from equities into fixed income. IG funds received \$363mm on the week. BWIC volumes fell 5% relative to recent averages, while customer purchases dropped by 3%. On the new issue front, deals saw mixed performance. The \$1.4bn NYC TFA deal saw good retail demand with ~\$775mm in orders with spreads only adjusted slightly in both directions. However, several deals were left with balances, with underwriters typically cheapening 2-3bps in an effort to clear out some of the inventory. We expect subdued activity again next week heading into the Labor Day holiday.

HY Munis

The HY market generally mirrored the MMD movements, with some slight improvement in levels seen on Friday after the Powell induced rate rally. Benchmark names like Buckeye Tobacco traded to a customer on top of last Friday's prints, while SR400 Expressway was bid 1bp cheaper. As has been the case for a while, select off-the-run names and sectors were met with strong customer demand after one dealer was very active in development district trades in UT, CO, and TX. That said, funds continue to take a cautious stance which has led to several deals, mostly in the senior living sector, to be put on day-to-day status as underwriters rework deal terms and investors take their time to do their due-diligence before committing to an order.

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Market Commentary

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