

General Market

In a week devoid of any major economic news, treasury yields drifted 3-8bps higher as risk sentiment improved, equities rebounded, and treasury auctions saw weak demand across various tenors. On the data front, US Services PMI fell to 50.1, showing activity nearly stagnated in July. The underlying data painted a picture of a sluggish economy as consumers remained cautious amidst tariff and policy headlines while Prices Paid climbed to its highest level since late 2022. Next week's inflation reading will be a key market moving event as the Fed appears to be weighing whether or not to cut the policy rate next month.

IG Munis

The muni market marched to the beat of its own drum this week, handsomely outperforming treasuries after the benchmark MMD curve saw yields lowered by 4-7bps. This strength came despite a nearly \$20bn new issue calendar, one of the largest on record but also on the back of the heaviest reinvestment cash of the year and \$1.66bn of mutual fund inflows. BWICs surged 22% this week, though the largest increases were seen in lower rated bonds. High grade new issues generally did well, with some select names and spots struggling, but overall balances were manageable enough for dealers to work out of. A \$950mm NYC GO deal, a poster child for a heavily owned name that typically trades wide for its rating, saw strong demand in both the retail order period in shorter maturities and in the institutional order period where the longest 28y tranche was bumped 5bps to 4.95%. It seemed many participants were surprised by the resilience exhibited by the muni market this week and are cautiously optimistic that the tone will begin to improve as the primary calendar eases up and the Fed gets closer to a rate cutting cycle.

HY Munis

The HY market turned in a mixed performance, though most bonds drifted a few bps weaker alongside treasuries. BWICs surged, with BBB-rated sale lists up 43% vs recent averages, while HY and NR paper jumped 31%, according to JPM's research desk. That said, dealers generally felt that the selling was more opportunistic than a necessity with accounts looking to monetize still-tight spreads amidst economic uncertainty and investor uneasiness over poor HY fund performance and notable markdowns. On the other hand, fund flows improved this week with Lipper reporting +\$224mm, a significant uptick relative to the \$13mm of inflows seen across the entire month of July. Accounts seemed to focus more on the front end of the curve, with dealers reporting especially strong inquiries across multiple sectors and buyers for short yield paper. Out long, generic credits weakened. Benchmark names like Buckeye Tobacco 2055s and Cofina 2058s ended 1-3bps weaker, while a block of a nonrated not-for-profit human service provider was crossed 5bps worse than last week's trade. In credit news, PREPA traded up ~6pts on the week after President Trump fired 5 of the 7 members of Puerto Rico's Oversight Board, stoking optimism that a new board would drop their opposition and reach a bondholder-friendly restructuring deal.

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Market Commentary

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