General Commentary

Treasury yields edged lower into Wednesday FOMC meeting despite retail sales beating expectations with a broad-based advance across most spending categories. Nevertheless, the Fed cut 25bps as expected, while the revised dot plot showed 2 more 25bp cuts expected by year-end. Treasuries rallied initially, but reversed course during Chair Powell's press conference as he dispelled any notion of a larger cut and called the decision a "risk management move", indicating that while the weaker labor market is in focus, the Fed is still concerned over higher inflation. A stronger than expected initial jobless claims report on Thursday further aided the sell-off. With the front end anchored by the expected Fed cuts, the 2y yield rose just 1bp on the week while longer tenors rose by 7bps.

IG Munis

The muni market kicked off the week on a solid footing, with a light primary calendar, mid-month reinvestment cash hitting accounts, and treasuries continuing to rally. At the same time, mutual funds saw an influx of cash as Lipper reported $1.045bn of inflows this past week, with $620mm going into IG funds. BWICs rose 15% but were again led by <1y tenors and short-call paper as accounts looked to extend duration. Prior to the post-FOMC selloff, traders reported the market feeling 5bps+ stronger on Wednesday and felt trades were 2-3bps better even after the FOMC selloff that saw treasury yields jump 4-7bps that day. The outperformance caused the relative value argument to wane, and the muni market gave back some of its gains in the back half of the week, with the benchmark MMD curve lower by 1-2bps across all tenors except the very front end. As ratios closed the week at just 56-58% up front, 70% in 10y, and 89% in 30y, we do not see many catalysts that would lead to further outperformance and suspect munis will more closely mirror treasury fluctuations over the coming weeks.

HY Munis

HY munis had an unusual week, decoupling from treasuries that tend to drive yield changes more than MMD movements do, while at the same time seeing a large dispersion in performance. While dealers reported that the offer side was starting to pile up early in the week as accounts looked to monetized recent performance, the $425mm of fresh capital that came by way of fund inflows combined with virtually no new issues led investors to look past the treasury sell-off and instead reach for yield. The lowest yielding HY paper were stuck in the mud, while wider spread names significantly outperformed. For example, a block of Cofina 5s of 58 was sold to a customer on Friday at 5.16%, or 4bps worse than last week's dealer purchase. However, the bid side on GA SR400 Express Lanes closed at 5.37% vs a 5.57% dealer purchase last Friday, while the bid side on Buckeye Tobacco 55s closed at

5.97% vs a 6.07% dealer buy last Friday afternoon. Without any major credit or economic shocks, funds that are flush with cash will continue to reach for excess yield. While the HY new issue calendar picks up slightly next week, most deals continue to be very small and can be digested with significant oversubscriptions. We suspect underwriters are busy behind the scenes working hard to line up their speculative transactions to take advantage of this demand.

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Market Commentary
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