General Commentary

Investors came back from their summer breaks grappling with the fact that Central Banks around the world are starting to cut policy rates while inflation is running above target and growth appears to be turning higher. Treasuries sold off 4-5bps on Tuesday and were in the red again Wednesday morning with the 30y hitting 4.999% before paring losses. Treasuries rallied from then on after the JOLTs report showed Job Openings in July fell to its lowest level in 10 months, while Layoffs also rose more than expected. Initial Jobless Claims for the last week of August rose to the highest since June, while ADP Employment also surprised to the downside. These reports foreshadowed Friday's weak reading of Nonfarm Payrolls which showed just 22k jobs created in August, while revisions to prior months showed employment shrank in June for the first time since 2020. Separately, the household survey of the Unemployment Rate ticked up to 4.3%, the highest level since October 2021. Treasury prices jumped as traders ratcheted up bets for Fed cuts, now expecting 3 before year-end, causing yields to fall 11-15bps across the curve.

IG Munis

After a sleepy start coming back from the holiday, the muni market tone improved each day of the week, boosted by falling treasury yields. A lighter tax-exempt primary calendar of $7.3bn, an estimated $19bn of reinvestment cash that hit accounts, and IG fund inflows of $434mm all boosted demand. BWICs fell 9% relative to recent averages, reflecting the reduced need to raise cash. Customer purchases rose 4% through Thursday, though we expect this figure will come in a decent amount higher given Friday's surge in activity after the Non-Farm Payrolls report. The benchmark AAA MMD curve slightly underperformed treasuries down the curve but outperformed by 3bps after the 30y MMD fell by 18bps. Underwriters offered a reprieve from the relentless pace of new deals being underwritten this year, which led to strong performance on the new issues that priced this week. A $2.04bn Aa1/NR/AA+ NY PIT deal saw ~$1bn in retail orders and was bumped a total of 9bps by the time the institutional order period was over. With the 30y initially offered as 5s at 5.02% before re-pricing at 4.93%, this may have been one of the last opportunities for investors to purchase ultra-high-grade tax exempt bonds around 5%. By the time bonds freed up on Friday, the bid side had improved to 4.80%. The other mega deal in the market this week, a $1.99bn NR/AA/AA+ MA School Building Authority transaction also saw strong demand with the 30y bumped 6bps. Like the NY deal, bonds were bid up 11bps on the break to 4.65%.

HY Munis

It was a similar story in the HY market, albeit with the majority of activity focused in the secondary market as the most notable HY transaction was for a smaller $65mm Ba2 rated charter school whose 30y bonds went away to just 5 accounts. Like IGs, the HY market traded with a stronger tone on Wednesday and only got better as the week wore on. Even before Friday's weak employment report, dealers reported that it felt like several trading accounts and dealer desks were caught off-guard as they were short risk and were driving the market higher as they bought up offerings. This continued throughout the close of the week as each successive print seemed to be stronger than the last and frequently traded names came close to matching the 18bp MMD performance. For example, after trading away to a customer at 5.91% on Friday afternoon, GA SR400 5.75s of 2065 traded as high as 5.85% Thursday afternoon, 5.80% Friday morning post-payrolls, and hit 5.72% by the afternoon. Similarly, Buckeye Tobacco 5s of 2055 which went away at 6.45% last week, sold at 6.40% Thursday morning, improved to 6.36% by the afternoon, and closed the week 6.28%/6.25%.

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Market Commentary

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