General Commentary

Treasuries fluctuated in a tight range throughout most of the week as the ongoing government shutdown limited economic data releases until a major risk off trade emerged on Friday. The September FOMC meeting minutes showed a deeply divided Fed with a wide range of opinions on what to do next, with a majority willing to lower interest rates further, but still cautious over persistent inflation. By the end of the week, growing concerns over the economic impact of a prolonged government shutdown as well as the implications of an unexpected ramp up in trade tensions between the US and China drove rates 9-11bps lower on Friday and 8-9bps on the week.

IG Munis

The muni market underperformed for the second week in a row, once again driven by front end weakness. The benchmark AAA MMD curve saw yields rise 2-3bps in the 2-5y tenors and fall 4-6bps from 10y+. Accounts were cautious to kick off the week ahead of a large $14bn primary calendar and activity remained light through Thursday, with JPM reporting BWICs down 9% on the week and customer purchases down 8%. New issues generally performed well as underwriters released scales with generous pricing terms. A $543mm Aa1/AAA MA Rails deal saw most maturities bumped 3-4bps after being upsized by 50mm, while a $361mm Aa1/AAA Columbus GO deal concentrated down the curve saw its 10y bonds bumped 7bps. One of the most widely held names in the muni market, NYC GO, saw its retail order period come up light with just $300mm in orders for its $1.5bn transaction. However, underwriters revised pricing wider during the institutional order period, cutting the 30y by 7bps to +45, which ultimately led to 2x subscriptions in that maturity. Despite the elevated supply, demand has remained solid in the face of continued inflows after Lipper reported another $698mm hitting mutual fund coffers last week. As the technical picture tends to turn more favorable over the last two months of the year, we believe investors taking advantage of the wider new issue concessions brought about via the heavy new issue calendar will likely be rewarded.

HY Munis

Despite the IG rally in longer maturities and treasury strength that usually drives the HY market, the two paths diverged this week as HY trended weaker. Benchmark names like Buckeye Tobacco, Cofina, and SR400 Express Lanes all traded 5-8bps worse after accounts grew increasingly concerned over the knock-on effects of negative credit developments in some large, widely held names. Brightline West, with $2.5bn in muni debt and facing a November deadline to complete a financing plan or buy back the bonds at a premium, traded down another 8-10pts on the back of last week's 10pt drop after news broke that the company is seeking an additional $6.5bn loan from the federal government and $5.5bn in equity after cost estimates jumped 35%. Bondholders have hired a law firm to begin negotiations on a debt exchange to extend out the deadlines and give the company more time to get their financing and construction contracts in place. Separately, an article in ReOrg highlighted the challenges facing Brightline East, with over $5.5bn in debt, that even in an optimistic scenario, the OpCo's cash flow will not be enough to cover non-operating entities' interest obligations causing HoldCo bonds to trade off 20pts to $40. With these names being some of the largest in the HY index and widespread ownership amongst HY mutual funds, investors worried whether the headlines may generate outflows as clients grow frustrated by their manager's performance. However, so far, signs have been limited. Lipper reported $269mm of inflows into HY funds last week, but it will be something to monitor over the coming weeks as investors reassess portfolio allocations into year-end.

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