

## General Commentary

As the government shutdown wore on, traders grappled with a lack of data reports that they would normally use to gauge the health of the economy. Instead, participants turned to speeches by several Fed officials, including Chair Powell, to get a read on the committee's thinking for the rest of the year. Importantly, Powell signaled that the Fed would likely cut rates in October as the market has expected, while noting the rising downside risks in the labor market. Away from the Fed, the ongoing US/China trade headlines continue to create a level of uncertainty, while cracks emerged in the perceived health of bank loan books after two sizable regional banks disclosed problems with loans involving allegations of fraud. Treasuries rallied throughout the week, though gave back some of the gains on Friday, ultimately ending 1-4bps lower across the curve.

## IG Munis

Despite the ongoing heavy slate of new issuance this month, the tone in the muni market continued to improve on the back of the rate strength seen over the past three weeks. There appears to be a growing sense of bullishness by participants as we look towards the turn of the year, which historically has produced strong performance amidst a favorable technical environment. Lipper reported \$663mm into IG funds, bolstering demand and reducing the need to generate liquidity, as BWIC volumes fell by 7-17% in 5y+ maturities. Dealers reported plenty of inquiry in the secondary market, leading to solid volumes and customer purchases off just 3% from recent averages. The belly of the curve saw the best performance, with the 10y MMD yield falling 6bps on the week, while the wings saw yields decline just 1-2bps. New issues also did well, with most deals seeing larger oversubscriptions than we've seen in recent weeks. For example, a \$1.46bn AA+ rated DASNY Sales Tax deal saw yields reprice as much as 10-15bps from retail order period to final pricing across most of the serial maturities. The 30y saw yields tighten 6bps and then traded up another 8bps on the break. Though ratios are nothing to write home about, the 30y is approximately 10 ratios cheaper than the multi-year tights achieved last December, so we wouldn't be surprised if munis were able to hang on to their performance through year-end.

## HY Munis

HY muni managers continued to grapple with a lack of new issuance as another week passed with no sizable deals to speak of. The light calendar has contributed to the stagnation in the market, given very few BWIC or sale lists as customers find it nearly impossible to replace yield in their portfolios. The secondary market generally tracked treasury movements, though a quiet Friday while rates pared gains led to modest outperformance on the week as benchmark names like Buckeye Tobacco, Cofina, and

SR400 Express Lanes traded 0-5bps better on the week. As mentioned last week, we are keeping an eye on HY fund flows after several major asset managers have underperformed this year after taking outsized positions on troubled credits and as broader macro concerns begin popping up outside of the asset class. This week, Lipper reported just \$15mm of inflows into HY funds, most of which went into ETFs. That said, most managers have built large cash cushions due to strong inflows all year and the ongoing lack of new issuance, so it would likely take a streak of sizable outflows before the market begins to meaningfully underperform.

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### Market Commentary

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