General Commentary

While most government data releases, including the CPI report, have been suspended until the end of the shutdown, an exception was made for September CPI to allow the Social Security Administration to calculate COLA adjustments on time. In the absence of economic news, treasuries traded fairly rangebound throughout the entire week even after Friday's inflation report surprised to the downside. Yields closed just +/- 2bps in either direction as traders viewed the report to give the Fed cover to cut the policy rate next week as well as plan for another cut in December, in line with what markets had already been pricing in.

IG Munis

The muni market tackled the onslaught of new issuance with ease as the 5th largest week of tax-exempt issuance ever saw deals multiple times oversubscribed and some repricings approaching double digit tightening. Investors continued to pour cash into muni funds, with Lipper reporting $1.12bn in mutual fund inflows this past week. Given the focus on new deals plus a lack of a need to raise cash, customer BWICs and secondary purchase volumes fell 7-8%. However, demand wasn't all uniform as the richest parts of the curve struggled. The front end, which came into the week at 65-68% ratios relative to USTs were cut every day of the week with the 2y benchmark yield ultimately closing 9bps higher. Meanwhile, the belly of the curve outperformed for the 3rd straight week after the yields dropped by 6bps in 10y and now sit with sub 70% ratios. With some relief up front, we expect accounts will begin to barbell especially as the long end remains the cheapest part of the curve.

HY Munis

Despite another week of very limited HY supply, bidders remained cautious in the secondary market for riskier credits. Benchmark names like Buckeye tobacco traded 5bps worse, reflecting the ongoing widening in HY spreads in the face of IG strength. JPM's compilation of weekly trades showed customers on average bought HY and nonrated bonds 6bps wider than evals, while sellers took a 13bp hit. Instead, investors are moving up in quality as BBBs were only purchased 2bps wider and sold 4bps wider. The very large Baa3 rated SR400 Express Lanes Project traded 4bps better on the week, more in line with the broader IG space. While HY fund flows ticked up this week to +$179mm, it's clear that managers have been reluctant to take risk in the face of ongoing economic uncertainty and lagging performance that may induce outflows. That said, as the HY Index spread relative to the AAA curve approaches YTD wides, managers are likely to find some solid credits that may have been left behind and can outperform in the new year.

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Market Commentary

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