General Commentary

The longest government shutdown in history finally came to end Wednesday evening but investors are bracing for volatility ahead. ADP's new weekly measure of private payrolls showed an average decrease of 11,250 jobs per week over the 4 weeks ending Oct 25, which seemed to take on more importance after the White House Press Secretary said that both the October CPI and Nonfarm Payrolls reports would not be released. However, the next day NEC Director Hassett clarified that it would only be the unemployment rate that will not be published since the data was not collected. A Bloomberg analysis of state level data also tried to provide some more clarity and showed that unemployment claims decreased slightly last week. Regardless of the limited alternative data sets, a chorus of Fed officials spoke out against a December cut. They argued that cutting rates may not do anything to help the labor market given structural changes to immigration policy and technology advancements but may have a more potent effect on stalling disinflation. Treasury yields rose 5bps across the curve as traders continued to lose hope for a December cut. Fed Fund futures now show just a 43% probability of a cut in December vs 66% last week.

IG Munis

Despite weaker interest rates, the muni market continued to trade with a firm tone as the benchmark AAA MMD curve ignored the economic headlines and was kept unchanged every day. Lipper reported the 7th consecutive week of fund inflows and the 26th in the last 29 weeks, underscoring the ongoing positive sentiment in the market. IG funds were entirely responsible for the positive number at +$486mm. The holiday induced lighter new issue calendar did well, while secondary demand was strong especially earlier in the week. As treasuries rose to close out the week, dealers reported some caution setting in and overall trade volumes slowed down as buyers looked to next week's large $16bn calendar for better entry points.

HY Munis

Last week's positive shift in the HY market appears to have been short lived as another bout of underperformance occurred this week. The weakness was driven by outflows, with Lipper reporting that investors yanked $81mm from mutual funds, with open-end funds hit with $119mm of outflows which was partially offset with +$39mm going into HY ETFs. For the second week in a row, there was a surge in BWICs, with JPM reporting +78% increase relative to the 5-week averaged. Unlike last week, where purchases kept pace, this week JPM reported HY purchases fell by 9% as investors dealt with the softer flows and a reinvigorated cautious credit outlook. Benchmark names were softer by ~3bps heading into Friday, but the tone seemed to collapse as the day work on and treasuries reversed course. As the 30y traded in an 8bp intraday range and closed at the wides, HY spreads also jumped. Dealers had been making a 6.13%/6.10% market on Buckeye Tobacco in the morning vs a 6.09% customer purchase last Friday, but a 500k+ piece traded at 6.22% off a BWIC in the afternoon. Similarly, GA SR400 2065s printed 5.25%->5.24% in the morning vs a dealer buy at 5.22% last Friday, however, by the afternoon a dealer sold a block to a customer at 5.30%. That being said, there still appears to be pockets of demand for different names at wide spreads. A $600mm BB rated senior living transaction which priced at MMD +227 did well with the underwriters leaving yields unchanged during the pricing and the 30y tranche allocated to 23 different accounts. That mid 6% yield for a solidly rated credit is hard to come by, and bonds traded up as high as 8bps on the break.

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<u>Market Commentary</u>
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