

General Commentary

With the government functioning again, a mix of stale, new, and missing financial data has added to the uncertainty across fixed income markets. The BLS said they will not publish an October employment report and instead incorporate the data into November's report, which won't get released until a week after the Fed's December meeting. They also will not release an October CPI report, while the November one will come out post-Fed. This has led to many economists shifting their expectations for the next interest rate cut, given the easiest path would be for the FOMC to hold steady in December and wait for a clearer picture of the data to emerge ahead of their January meeting. Confidence in a December cut was further shaken after the Fed's October meeting minutes showed that many participants wanted to keep rates steady the rest of the year. That said, on Friday, NY Fed President Williams said he saw room for the Central Bank to cut interest rates again in the near term as the labor market softened. To that point, ADP's new weekly employment data showed US companies cut 2,500 jobs per week on average in the 4 weeks ending 11/1, while the Univ of MI survey showed consumer sentiment fell to a near record low as high prices and reduced job prospects have led to a bleak outlook for many respondents, particularly in lower income brackets. Treasuries closed the week as much as 11bps lower in the front end as prospects for a December cut were reinvigorated.

IG Munis

After its recent bout of outperformance, the muni market felt a bit stuck this week given the massive \$17bn calendar and a turn in fund flows. Lipper reporting \$966mm in outflows, though the number was apparently skewed by an intra-company fund acquisition which had resulted in a corresponding inflow last month. That said, open end funds were still hit with \$332mm of outflows this week, which were offset by \$465mm of inflows into ETFs. With the outflows, heavy new issuance to focus on, and conflicting views around the Fed's next move, dealers reported a cautious tone out of the gate. While demand seemed to firm up in the front of the curve as deals were released, investor hesitation to reach for longer duration this week was evident in both new issue subscriptions and secondary trade flow. The \$1.03bn NYC Muni Water deal saw its serials mostly subscribed during the retail order period, but the term bonds in 2050 and 2055 were widened 5bps in order to clear. In the secondary, JPM reported a 24% jump in BWIC activity and 12% increase in customer purchases, with the biggest gains seen in the 20y+ segment. While the muni market underperformed treasuries, the majority of the curve was unchanged on the week and the back end saw yields rise just 2bps. We do not expect any major weakness to take hold as the new issue calendar is beginning to dwindle with only two non-holiday or non-Fed weeks left in the year. Additionally, December reinvestment cash is set to hit and there appears to be ample demand at adjusted levels just a few bps wider than the current offered side.

HY Munis

The HY market continued to struggle after a second consecutive week of outflows. Lipper reported HY funds lost \$162mm, with open end funds faring worse than ETFs at -\$212mm. As cash buffers have been whittled down and funds get more defensive, the market seems to have flipped to a "buyer's market" where those with cash can pick and choose select new issues and take advantage of customer BWICs by bidding well behind evals. The tough environment for sellers even extended up into the mid-grade space, where three bid lists on Wednesday comprised of \$118mm in airport mostly saw prints 10-15bps wide of marks. On the new issue front, the \$522mm BB+ rated United Airlines deal got downsized to \$273mm with 2 series being pulled after struggling to find orders. A \$94mm nonrated charter school deal was entirely shelved, while a \$110mm nonrated hotel deal got downsized and cheapened. On the other hand, some deals were able to clear without issue, although we aren't seeing the robust levels of oversubscriptions that most have grown accustomed to. A \$174mm nonrated senior living deal for an expansion project at a community that is performing well was left unchanged from original price talk, with its term bonds that were offered north of 6% sold to 12 investors. This environment bodes well for active credit managers who can sift through the noise and provide liquidity for favored names while others are pulling back.

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Market Commentary

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