General Commentary

Treasuries bounced around throughout the week as traders got some glimpses into the health of the labor market while official government reports were still on hold during the shutdown. ADP Employment came in better than expected at +42k jobs in October, but in looking under the hood, small business employment declined for the fifth time in the last 6 months. On Thursday, the JOLTs report showed that job cuts surged 175% in October, almost triple the amount from this time last year. Separately, an alternative measure of nonfarm payrolls estimated the US lost 9,100 jobs in October. The Univ of MI Consumer Sentiment survey fell to a more than 3-year low as anxiety mounted over the impact of the government shutdown, weaker labor markets, and still elevated prices. On the other hand, the ISM Services Index showed activity unexpectedly expanded in October at the fastest pace in 8 months on the back of a surge in new orders, while the Prices Paid Index jumped to a 3- year high. Further, the Supreme Court justices questioned the legality of President Trump's tariffs which could spark further growth if unwound. Given the resilience in the economy amidst a softening but not collapsing job market, the jury is still out over whether the Fed will cut the policy rate again in December. Futures markets are pricing in a 66% probability of a cut as participants are cautiously optimistic that Fed officials will be more concerned with the softening labor market data than with the prospect of inflation reaccelerating.

IG Munis

The stronger tone that has percolated throughout the muni market persisted this week as a surge in redemption cash and nearly $1bn of IG fund inflows were able to absorb the elevated new issue calendar with ease. The benchmark MMD curve performed relatively in line with treasuries up front but outperformed by 6bps in the long end. As such, dealers reported very strong inquiry coming from various account types with a heavy focus on longer duration. JPM reported a major jump in 20y+ activity, with BWICs rising 51% and customer purchases up 29% relative to recent averages. As mentioned over the past few weeks, the last two months of the year typically offer strong performance given a favorable technical environment. Investors appear to be bulled up and are likely to buy any dips due to rate weakness over the coming weeks.

HY Munis

For the first time in weeks, HY investor caution began to fade. Lipper reported +$277mm of fund inflows which sparked an uptick in trade volumes. JPM reported a 75%-78% surge in both HY/NR BWICs and customer purchases. Dealers reported stronger inquiries emerging after the 11/1 redemption cash combined with another $382mm from the annual PR CVI distribution hit investors' books. Generic names outperformed the broader market, with

Buckeye Tobacco and GA SR400 Express Lanes both trading about 10bps better on the week. We also saw a stronger bid emerge for senior living, particularly independent living focused facilities trading at 6%+ yields. We'll be closely watching fund flows for signs of renewed optimism from investors, but HY fund managers are hopeful that the positive momentum continues, and they can claw back some of their underperformance before the year ends.

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Market Commentary

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