General Commentary

The treasury curve continued to steepen after Fed Chair Powell's dovish remarks in his post meeting press conference last week. The front end rallied by 4-5bps while the 30y only fell by 1bp, an almost 15bp steepening over the past two weeks. This week brought about a big data dump following the resumption of official prints after the government reopened. While the payrolls figures declined in October due to the DOGE deferred resignation program and November's rebound was a still sluggish +64k, the biggest surprise was in the November CPI report. The core figure showed inflation fell to 2.6%, which is the lowest since early 2021, however, hopes for additional rate cuts were tempered by the likely distortions in the data. The market implied probability of a January cut declined slightly, while traders upped their bets that the Fed will be ready to move again in March or April.

IG Munis

The lack of volatility in the muni market continued this week as investors have largely ignored the daily fluctuations in treasuries that have traded relatively rangebound. The benchmark AAA MMD curve was unchanged everywhere except out to 3y which saw yields lowered by 2bps. Similar themes persisted, with BWIC volumes rising as investors looked to raise cash before liquidity wanes over the next two weeks. JPM's data showed customer sale lists jumped 41% this week relative to recent averages, with 20y+ paper rising 64%. That said, dealers have reported several inquiries across a variety of customer types which has helped absorb the supply. Helping drive some of this inquiry is continued fund flows into the IG space, especially IG ETFs which saw +$522mm and only partially offset by the $138mm in outflows from open-end IG funds.

HY Munis

Despite the steadiness in IGs, the HY side of the market remained a bit choppy. Florida’s Brightline Trains stole the spotlight this week as one of the largest issuers in the HY market and widely owned across various mutual fund complexes. On Monday, the Opco bonds (originally rated BBB- last year) saw its first sizable trade print in a month with blocks going away at $72 vs an $83 eval. The next day, an EMMA disclosure by the company acknowledged they would need to tap their debt service reserve fund to make their January 1st interest payment. Additionally, they were looking to raise another $100mm of debt to shore up liquidity as the operation remains unprofitable. Then on Friday, S&P surprised the market with a 5 notch downgraded to CCC/Negative, citing the likely default by January of 2027. Interestingly, their revised growth projections show the company will never turn an operating profit, let alone be able to pay their debt costs or CapEx needs.

While the problems facing Brightline are unique to the enterprise, the concern across the market is the knock-on effect it may have as investors pull cash from mutual funds that were heavily invested in these one-off names that have seen large markdowns and in turn caused poor performance this year. Other large benchmark names like Buckeye Tobacco have seen marked spread widening, with the long 5s about 50bps wider over the past few months and the 0s trading off 15% in just the last two weeks alone. While overall HY fund flows were slightly positive this week at +$17mmm, open-end funds lost $106mm. These funds turned to their most liquid holdings, with BBB rated BWICs surging +82% this week. While HY spreads have widened throughout the year, we believe it to be prudent to remain patient and wait for more opportunistic environments, especially if funds begin to sell their lower rated holdings.

We wish all of our readers a very happy holiday season. Thank you for following along and we look forward to a productive 2026.

Disclaimers

This report is confidential and a product of Birch Creek Capital, LLC (“Birch Creek”). It is intended solely for the information of the person to which it has been delivered by Birch Creek. The views and opinions expressed herein are subject to change without notice and Birch Creek is under no obligation to update or keep this information current or accurate. This report is being provided for general informational purposes only, and may not be disseminated, communicated, or otherwise disclosed by the recipient to any third party without the prior written consent of Birch Creek. Birch Creek Capital, LLC is registered with the Commonwealth of Pennsylvania as an investment advisor, which in no way implies that the state of Pennsylvania has endorsed any of the entities, products or services discussed herein. This commentary does not constitute an offer of to sell securities or the solicitation of an offer to purchase an interest in Birch Creek Credit Value Fund, LP (the “Fund”) or any other Birch Creek products. Such an offer may only be made to Accredited Investors or Qualified Clients and by means of a confidential offering memorandum. Additional information regarding the Fund or other Birch Creek products is available upon request.

Any information in this document related to past performance of the Fund or other investments managed by Birch Creek should not be relied upon as an indicator or guaranty of the future investment performance of any Birch Creek present or future investment vehicle. Birch Creek’s investment strategy involves the risk of loss. Any projections of future performance in this document are based on a number of assumptions and Birch Creek Funds’ actual performance may differ significantly from projected performance. There is no assurance that a portfolio will achieve its investment objective and please be aware that the portfolio may be subject to certain additional risks described in the Fund’s confidential offering memorandum.

Market Commentary

This report includes forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning, or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties, and contingencies. Forward-looking statements are not a promise or guaranty about future events.

Neither Birch Creek or our information providers shall be liable for any errors or omissions or inaccuracies, regardless of cause, or the lack of timeliness for any particular reason. The recipient should not assume that such information, even if accurate as of its date, is accurate as of the date hereof. None of Birch Creek is under an obligation to update the information contained in the materials attached hereto. THERE ARE NO WARRANTIES, EXPRESSED OR IMPLIED, AS TO ACCURACY, COMPLETENESS, OR RESULTS OBTAINED FROM ANY INFORMATION CONTAINED HEREIN.