General Commentary

Treasury yields kicked off the week in the red after a BOJ governor discussed a possible rate hike at their next meeting. While the market does not expect the Fed to take its cues from the BOJ, Japan's role as a major source of global liquidity would have implications for carry trades across the globe. In the US, the November ADP Employment report came in weaker than expected with private companies culling 32k jobs in November, the 4th time over the past 6 months that payrolls have fallen. Given the delays in the Nonfarm Payrolls report until after the Fed meeting, market participants expect that this ADP report will have an outsized influence on the committee. While rates closed off 7-13bps this week, the probability of a Fed cut next week rose to 95% vs just 63% two weeks ago.

IG Munis

The muni market demonstrated its resilience this week, outperforming treasuries by 7-8bps across the curve despite the 3rd heaviest new issue calendar of the year. The stronger tone began to take hold after investors were taken by surprise by how well the primary calendar was getting digested, with several large deals being tightened amidst oversubscriptions. For example, a $1.02bn MA GO deal was tightened 3-8bps up front and bumped 2bps out long on a day that saw $8bn of deals price. It seemed investors used this heavier supply week to put cash to work that had been building up on the sidelines especially after receiving $24bn of December 1st reinvestment cash and ahead of the year-end slowdown. Lipper also reported solid fund flows of +$483mm going into IG funds which further added to demand and drove secondary trading volumes up, with JPM reporting an 18% increase in customer purchases.

HY Munis

The HY market continued to diverge from IGs. While most accounts were holding offer levels too high, we did see some realistic sellers beginning to emerge as ratios ground tighter and new issues offered better value. Benchmark HY names like Buckeye Tobacco ended the week off ~8-9bps, somewhat in between the treasury and MMD movement, but mid-grades fared better. Large BBB- issuers like SR400 Express Lanes and I-10 Bridge bonds were only off 3-5bps, further illustrating the rotation up in quality we have highlighted over the past few weeks. HY BWICs rose 24%, but finding liquidity has been difficult for sellers. One dealer reported being the high and only bid on at least 10-12 different names this week. With the shaky tone not likely to subside any time soon, we continue to expect credit selection will be the main driver of outperformance for HY managers.

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Market Commentary
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