General Commentary

Treasuries started off the week on a firmer footing, shrugging off concerns over the Fed's independence and digesting December's CPI report which showed that core consumer inflation remained steady at 2.6%. Further, the PPI report showed many of the categories that flow into the Fed's preferred PCE gauge had limited or negative growth. However, November's Retail Sales rose more than expected and both Initial and Continuing Jobless Claims fell last week. Following the mixed data and some hawkish comments from Fed officials, the curve bear flattened as market participants weren't seeing enough concerns in the data to warrant a rate cut any time soon. Amidst the probability of the Fed cutting by June dropping from 100% to 83%, the front end rose 6-7bps while the 30y rose 3bps.

IG Munis

Despite the new issue engine beginning to rev back up for the year, the muni market moved in the complete opposite direction as the MMD curve bull flattened on the week. Front end demand was strong, with JPM reporting a 28% increase in customer purchases relative to recent averages, which led to the AAA curve being bumped each day, ultimately ending the week 8bps lower in 2y. On the other end of the spectrum, customer purchases for long duration bonds surged as much as 36% but was met with enough supply to keep the 30y unchanged for the week. The increased demand came on the back of another strong week of inflows, with Lipper reporting $1.478bn flowing into IG funds. This led to a decline in customer BWICs by 13% as accounts' cash balances are beginning to swell and the need to create more cash has diminished. New issue volumes were manageable and mostly saw good subscriptions out to ~20y, while the long end was met with lackluster demand. For example, a $739mm AAA rated Dallas PSF deal was bumped 7-8bps in the 15-20y part of the curve but just 1bp in 30y. A $337mm Aa3/AA- TX Christian University deal had to be cheapened by 5bps in 30y.

HY Munis

After a strong start last week, HY performance was a bit more mixed. While many trade prints have been through lagging evals, particularly on bonds that hadn't traded in a while, those that have been more active mostly printed in a +/-5bp range for the week. In benchmark names, Buckeye Tobacco and GA SR400 traded 3bps and 5bps worse, respectively, while Cofina 58s were 5bps better. The choppiness was also evident in smaller, nonrated names trading above 6%. A VA hotel project traded 3/8pt (~3bps) better on Friday, while a TX hotel revenue bond traded 3bps worse. A nonrated MA senior living name saw customer purchases 1bp better than last Thursday , while a nonrated pooled charter school sold at the exact same yield. The new issue calendar didn't provide many opportunities as the largest

HY deal was a $104mm nonrated senior living transaction that saw very strong subscriptions and led to the 30y and 35y terms being bumped by 9-10bps. Next week's $634mm nonrated senior living deal for a new luxury independent living community in the Bronx will provide a true test of the market's appetite for risky deals. At just 260 units, the $2.44mm debt/unit is the highest we've ever seen.

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<u>Market Commentary</u>

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