

General Commentary

Markets took their cues from the Fed this week, with January's FOMC meeting taking place mid-week and news of Chair Powell's replacement out on Friday. Despite President Trump repeatedly calling for lower interest rates, the Fed board held the overnight rate steady, which was widely expected. Additionally, the committee's press release dropped their reference to increased downside risks to employment and instead included new language that the unemployment rate has shown some signs of stabilization. Friday's news that Kevin Warsh will be nominated by the President to become the next Fed Chair led to a steeper yield curve. Overall, the front end fell by 7bps, while the long bond rose by 5bps on the week. The belief is that while Warsh is in favor of the Fed lowering rates now, in the past he had been much more of a hawk and has called for the unwind of the central bank's balance sheet, which should un-anchor longer term debt alongside the inflationary effects of cutting rates in a stable to stronger economy.

IG Munis

The strength in the muni market persisted amidst a very light week of issuance, strong fund flows, and a mostly rallying treasury curve. The front end and belly of the AAA MMD curve saw yields fall by 3-4bps, while the long end was unchanged. JPM Research's weekly compilation of trade data showed the supply/demand imbalance. Customer BWICs fell 5% relative to the previous 5-week average, which was already dampened due to year-end trade volumes, while customer secondary purchases jumped by 26%. As accounts are flush with cash amidst the 17th week of inflows over the last 18, holders lack any true reason to sell anything unless they can get a strong price. IG buyers on the other hand, armed with \$1.58bn of fresh capital this week, had very few options in the primary and began to chase opportunities in the secondary, with most trade prints occurring through evals. While we recognize that a continued surge in fund flows can keep the market afloat, 2y to 10y MMD/UST ratios in the 57-60% range leave little to be desired and we believe it may be prudent for managers to pare down some risk as we head towards a seasonally weak environment in March and April.

HY Munis

The HY market had a fairly uneventful week. BWIC volumes rose 36%, but hit rates fell to just 59%, 7% below recent averages, according to JPM. Holders seemingly were looking to take advantage of the positive tone and limited issuance YTD. Instead, buyers were content to hang on to cash and wait for more attractive entry points as customer purchases fell by 25%. Names that did trade, generally ground tighter. On Friday, Cofina 58s went away 4bps better than last week's close, while Buckeye Tobaccos were purchased by a dealer at its same

level. Some less frequently traded credits also ticked tighter, with a block of USVI Frenchman Reef Hotel bonds trading 1bp better than last week. With Lipper reporting another \$486mm of inflows into HY funds this week, it seems the market has put last year's poor performance and outflows in the rear-view mirror. As cash buffers swell and sellers remain strategic, we continue to believe it's only a matter of time before risk taking ramps up and more speculative credits get brought into the market.

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Market Commentary

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