

General Commentary

The treasury market gave back some of its recent gains after a slew of economic data came in stronger than expected and the Supreme Court struck down President Trump's broad tariff policy. The week kicked off with reports that showed industrial production climbed the most in nearly a year, capital goods orders fell less than feared, and housing starts hit a 5-month high. Additionally, the December core PCE report rose 0.4%, the most in nearly a year. The front end rose by as much as 8bps, while long yields closed 3bps higher. Despite the Supreme Court's ruling on the IEEPA tariffs, the administration pledged to swift reintroduce levies via other legal means and signed a 10% global tariff rate by the afternoon. This tempered the market's move but opens the risk that the curve could steepen if the Treasury department must issue more bonds to cover a wider than expected deficit without the previously anticipated tariff revenues.

IG Munis

The muni market rallied for the 4th straight week, with the benchmark AAA MMD curve seeing yields fall 1-3bps and outperform treasuries by 4-8bps. While ETF redemptions early in the week led to some sizable BWICs and more cautious trading, ultimately the influx of cash and smaller primary calendar kept the good times rolling. Lipper reported the 13th consecutive week of inflows, with \$965mm added to IG funds. MMD/UST ratios ended the week at less than 60% in 10y and shorter tenors, helping the long end to finally outperform after the curve steepened by 34bps YTD. With reinvestment cash set to slow and some tax related selling likely to occur over the next two months, many accounts are comfortable waiting for cheap new issues to get invested. However, given the rapid rate of new cash flowing into the market, it is becoming increasingly more difficult for accounts to remain uninvested. Fund flows over the coming weeks will be the key determinant of whether "this time will be different" and the market can continue its run of performance rather than weaken during the upcoming Spring technical period.

HY Munis

The tone in the HY market kept pace with IGs this week as the primary calendar provided few opportunities to deploy pent up cash and Lipper reported another week of inflows, at +\$304mm. JPM Research reported that HY BWICs fell 25% and customer purchases declined by 31%, echoing dealer comments from around the street that client offerings were extremely limited as they were loath to create more cash. Yields continued to grind lower but mostly matched the MMD performance. Benchmarks like Buckeye 55s and Golden 0s each ended the week 3bps better, while names like Cofina and GA SR400 Express Lanes were roughly unchanged. The star of the show came via the primary market as the largest HY deal of the week was a \$99mm nonrated senior living transaction that saw oversubscriptions range from 6-18x and yields repriced 10bps lower out long. Next week will again offer limited opportunities to invest in new names and should keep the wind at the market's back.

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Market Commentary

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