

General Commentary

With limited economic data to move markets this week, treasury yields fell as a flight to quality took hold. In the beginning of the week, concerns resurfaced over President Trump's new tariff proposals and AI companies rendering many incumbent players obsolete. Despite anxiety easing on Tuesday and Wednesday, the end of the week saw many of the same AI fears pop up despite Nvidia's blockbuster earnings. Treasuries received a further boost after US-Iran nuclear talks in Geneva were said to be intense and pundits began discussing US airstrikes that could be on the table as soon as this weekend. Yields closed the week 11-15bps lower, with the 5-10y part of the curve outperforming the wings.

IG Munis

The muni market churned out its 4th straight week of positive returns, albeit drastically underperforming the treasury rally, particularly down the curve where valuations were richest. The benchmark AAA MMD curve saw yields lowered by 3bps out to 5y, was kept unchanged in 10y, and rallied 6bps out long. This demand pattern was borne out in the new issue market. A \$2bn Aa2/AA rated University of California transaction was tightened as much as 10bps out long due to robust demand, but the underwriter was left with some balances out to 9y. In the secondary, BWIC volumes picked up a bit with JPM Research showing an 8% jump relative to recent averages, but the hit rate also improved, indicating a healthy market. Cash continued to flow into funds, which has kept demand strong despite a reluctance to chase paper amidst what may be another record year for new issuance. Lipper reported inflows of \$1.029bn, \$574mm of which went into IG funds. This was the 14th consecutive week of inflows and JPM reported that the YTD figure is currently tracking as the 3rd highest on record yet still does not include the funds that only report their data monthly.

HY Munis

The story in the HY market was more of the same that we have reported on for several weeks. There is simply too much cash chasing too few bonds and finding interesting credits at attractive spreads has become an exercise in futility. Trade volumes have slowed dramatically as holders of HY paper have very little need to sell given heavy inflows and very little desire to sell given it is nearly impossible to replace risk in this environment. In fact, JPM Research showed a 33% drop in HY/NR purchases this week given the limited opportunity set. Those that are underinvested and fear they are missing out on the market move are reluctantly entering the secondary market by paying aggressive prices for credits they like as they feel they cannot wait any longer for new issues that have not yet materialized in any sustainable size. For example, a BB+ rated FL senior living credit traded 5.55%→5.53% on

Friday after a dealer stocked a block of the same bonds last week at 5.67% before selling at 5.62%. On the other hand, benchmark names that accounts already own enough of barely budged on the week and underperformed IGs. Recent new issues continued to outperform, with last week's \$99mm NY senior living deal trading up 40bps after it freed up on Monday. Even smaller names like a \$35mm nonrated TX private school that came last week saw a dealer purchase bonds 6bps better than new issue and offered up another 8bps from there. Unfortunately, next week's calendar does not offer much relief, and we suspect the tone will be more of the same.

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Market Commentary

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