General Commentary

It was another volatile week in global markets, with President Trump's announcement of a 5-day postponement on strikes against Iranian energy infrastructure helping to lighten the mood early on. However, hopes for a resolution quickly faded and by Thursday, Trump questioned whether a deal with Iran was even possible. A new 10-day extension was announced, however, attacks from both sides showed no signs of letting up. Brent Crude prices topped last week's high to close above $112, while the Dow and Nasdaq both hit correction territory. The treasury market was relatively tame, with the 2y ending unchanged on the week and the rest of the curve seeing yields rise just 3-5bps. The steepening trade began taking hold as participants factor in the demand destruction caused by the ongoing war. The theory is that the Fed may look through the temporary inflationary effects of higher energy prices to consider rate cut in order to re-stimulate the economy.

IG Munis

As expected, the muni market struggled to find its footing this week amidst the highest volume of new issuance of the year. The benchmark AAA MMD curve dramatically underperformed treasuries with the belly off 18-19bps, while the long end was a bit more measured with a 9bp loss. Through Thursday, BWIC volumes had reached the highest YTD weekly figure, jumping 32% vs the 5-week average, according to JPM research. Fund flows, which has been a pillar of support to the market this year, came in at a measly +$7mm, as modest ETF inflows just barely offset a small open-end fund outflow.

Ongoing macro volatility and rising rates will flow through to muni performance, but there does not appear to be much negativity amongst participants. After being adjusted wider, most new issues saw ample subscriptions, suggesting the bid side is deep for bonds that come at a concession. Dealers reported several inquiries for high grade paper, especially as the underperformance has brought ratios to much more palatable levels as the 10y closed around 70% and the 30y at 92%. Next week's calendar will offer a reprieve at just $6.5bn, while any tax-related outflows will subside the following week after payments are due on the 15th. We continue to believe the IG market is more attractive than HY and offers a compelling entry point to put cash to work over the coming weeks.

HY Munis

The HY market continued to show its resilience this week despite a surge in BWICs and fund outflows. JPM reported HY/NR sale lists jumped 29% vs recent averages, however, hit rates plummeted by 20% and customer purchases dropped 14%. Lipper reported the second consecutive week of outflows at $606mm. This suggests that while funds were seeking liquidity, they were able to meet the existing withdrawals with pent up cash that had accumulated since the start of the year.

Benchmark names like Buckeye Tobacco and Cofina traded just 1-2bps worse than their prior week's close, however, we did see some larger deviations in other names. One UT development district traded 15bps worse than the prior week, while a BBB- charter school saw bonds trade ~30bps worse than eval and almost 7pts lower than where a dealer purchased them just two weeks prior.

Broadly speaking, the HY index tightened 8bps relative to the IG index, which makes little sense to us. With every other risk market tanking, fund flows turning negative, and IG yields approaching 5%, we would not be surprised if the market is faced with some sloppy days ahead. We believe investors sitting on cash will have much better opportunities to deploy capital and at cheaper levels than can be found in today's market.

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Market Commentary

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