General Commentary

Markets continued to oscillate between hope and fear as treasuries rallied early in the week after President Trump said the US "is in serious discussions" with Iran to end the war, but pared gains into the weekend after the President indicated he would only consider a ceasefire when the Hormuz is "open, free, and clear" and that a near-term peace deal is off the table. The Good Friday release of the Nonfarm Payrolls report showed job growth rebounded in March, jumping +178k vs +65k estimated, while the unemployment rate unexpectedly ticked down to 4.3%. Treasuries sold off as traders reduced bets that the Fed would cut rates later this year. Overall, yields fell 5-9bps, with the biggest gains coming in the belly of the curve.

IG Munis

The muni market followed suit, with a stronger tone beginning to emerge after last month's jump to much more attractive yield ranges. New issued performed well, with several deals accelerated early in the week to capitalize on the turn in interest rates. Monday and Tuesday saw the first consecutive days of MMD bumps since early September, with the yield curve continuing to adjust lower each day thereafter. Lipper reported >$1bn of inflows into IG funds, with the demand tilted towards longer duration products. As such, dealers reported strong inquiries, especially in the 10-15y space that had been hit hardest in March. Before factoring in the monthly curve roll, the 10y MMD fell by 12bps, outperforming all other major tenors. We continue to favor the IG portion of the market as both absolute and relative yields are at the most attractive levels of the year, the weaker spring technical period will soon give way to a seasonally strong summer, and the strong credit quality and essentiality of the asset class should provide a nice tailwind if a prolonged war and high oil prices derails the economy further.

HY Munis

The HY market also benefitted from the treasury rally and limited new issuance, with it starting to feel like a bond "grabathon" early in the week as investors clamored to put risk back on. By Tuesday, dealers were putting out bid sides on dozens of different names, with customer orders generally 10-20bps through evals across better performing HY credits in a variety of sectors. Benchmark names like Buckeye Tobacco closed about 9bps better on the week, while shorter duration HY like a nonrated block of Atlanta's Westside Gulch project in 2039 traded 11bps better than last Friday. Different names fared similarly, with a Ba1 rated NY charter school being sold to a customer at 6% after being purchased at a 6.10% the week prior. This all came about despite Lipper reporting the 3rd straight week of HY fund outflows, though losses subsided to just $173mm this week. Our unfavorable view of the market remains the same as we prefer to get interest rate beta via IG exposure and believe credit spreads are not reflecting the fundamental shift we are seeing in the macro landscape.

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Market Commentary

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