General Commentary

While negotiations between the US and Iran seem to have stalled, the ongoing ceasefire enabled market participants to turn their attention back to the economy and the direction of the Fed. Officials held rates steady, but surprised the market with a more hawkish message as 3 committee members objected to the language in the post-meeting statement that suggested the Fed would eventually resume cutting rates. In the press conference, Chair Powell noted he would want to see both a stabilization in energy prices and progress on tariffs before cutting rates. Thursday morning saw a solid Q1 GDP report and initial jobless claims that fell to its lowest level since 1969. With the data showing a resilient economy and some officials thinking that rate hikes may need to remain in consideration, treasury yields bear flattened on the week with the front end off 10bps while the long bond sold off 5bps.

IG Munis

The muni market mostly moved in tandem with treasury yields by week's end after the 30y MMD/UST ratio hit a 12-month low early in the week caused some buyers to move to the sidelines. JPM Research's weekly trade data reflected the modestly weaker tone. BWIC volumes were unchanged relative to its 5-week average, but the hit rate dropped by 8% and customer purchases declined by 5%. That said, we saw multiple dealers post comments suggesting that there are still plenty of customer inquiries out there regardless of the day to day volatility, particularly for long duration bonds, as absolute yield levels remain attractive and inflows remain strong. To that end, Lipper reported $615mm into mutual funds which overwhelmingly favored IGs over HY. While the size of new issue calendar looks to be robust over the coming weeks, we suspect deals will only need to offer modest concessions and will see strong subscription levels.

HY Munis

Despite just $60mm of inflows into HY funds this week, the supply/demand imbalance after months of strong inflows and little issuance has led to aggressive buying and index spreads retracing to just 2bps off their March lows. Recent new issues showed strong performance with the nonrated Clay Lacy Aviation deal trading up another 24bps after initially rallying by 28bps when freed last week. Similarly, the HR Ontario Hotel project which came at a 6.40% last week was freed to trade on Monday and ended the week at a 6.02%. Even a struggling credit like Brightline West traded up nearly 15% on an ambiguous comment from a FERC official that mentioned the government was "interested" in putting money into the project. In other credit news, the initial NAAG tobacco data came out showing OPM volumes down 9.4% and the max NPM adjustment jumping to over $2bn from $1.68bn. Buckeye Tobaccos widened, but only ended the week off 8bps, while other benchmark names like Cofina traded flat to last week's prints.

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<u>Market Commentary</u>
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