

## General Commentary

To kick things off this week, President Trump indicated that the ceasefire with Iran is on "life support" and harshly criticized their response to his latest peace proposal. With the war having no end in sight, oil prices continued to climb throughout the week, sparking a global bond sell off that saw Japan's 30y hit 4% for the first time, the UK long bond jump to a 20y high, and US treasury yields climb 20-26bps. Turning to the data, a slew of economic and corporate earnings reports pointed to signs of economic resilience, though some cracks began to form. Core CPI accelerated more than expected to 2.8% annualized, while Core PPI jumped 1% month over month. Retail Sales rose for the 3rd straight month and the Control Group sales figure, which feeds directly into the GDP calculation rose more than expected. On the other hand, a large portion of the surge in CPI came from a data quirk and the read-through from the PPI report into the Fed's preferred CPE measure was softer than expected. Additionally, wage data showed that real average hourly earnings fell 0.3% from the year before, marking the first drop in 3 years.

## IG Munis

The muni market drifted higher alongside treasury yields but outperformed after the benchmark AAA MMD curve was cut just 12-15bps. Lipper reported a hefty \$1.35bn of inflows into mutual funds, with \$1.13bn deposited into IG funds. According to JPM Research, BWIC volumes slowed as investors were focused on the sizable primary calendar. Most deals that came at a concession to the secondary saw oversubscriptions, though some names struggled. With so many options to choose from, investors had the luxury of being selective to find the right fits for their portfolios. That said, momentum waned as the week wore on and dealers reported the secondary tone felt heavy as buyers moved to the sidelines. While the new issue calendar is expected to remain elevated for the next few weeks, A-rated and discount structures are approaching or crossing the psychologically important 5% yield threshold that typically provides strong support for the market.

## HY Munis

The HY market seemed to ignore the rate weakness early on, with benchmark names trading rangebound, but ultimately succumbed to the sell-off as the week wore on. That said, benchmark names like Buckeye Tobacco and Cofina finished ~11-14bps wider, slightly outperforming IGs. Secondary volumes were quiet, with JPM reporting that HY BWICs fell by 23% and customer purchases dropped 27%. Dealers still reported strong inquiry for certain sectors and structures with plenty of cash available for the right names. With another week of inflows (+\$218mm) adding to HY investors' cash hoard, the badly needed uptick in new issue volume was well received. A \$105mm BB+ rated United Airlines deal for a Ground Services facility in Houston was 6x oversubscribed. A separate \$151mm tranche for the

Catering facility was just 2x oversubscribed, but still traded up 9bps, before the bid softened a few on Friday. A \$127mm nonrated Utah development district was 17x oversubscribed and bumped 25bps. Even smaller deals like a \$35mm nonrated VA senior living transaction was 7x oversubscribed and a pair of \$30mm nonrated OH affordable housing properties were bumped 12.5bps. While yields should drift higher alongside the broader market, it seems like it would take a significant dislocation event for spreads to gap wider.

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### Market Commentary

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