General Commentary

Financial markets had a strong week as optimism around a potential end to the US-Iran conflict continued to build. Reports emerged mid-week that negotiators had reached agreement on a 60-day MOU that would extend the ceasefire and launch talks on Iran's nuclear program, with President Trump entering a meeting Friday to make a final determination. After a two-hour session, Trump left without a decision, causing rates to pare some of their gains late in the day. Despite the unresolved outcome, markets largely looked past the ongoing exchange of strikes and ceasefire accusations throughout the week, as participants appeared unwilling to miss the end-of-war trade in rates, oil, and equities. Brent crude fell roughly 13% on the week and treasury yields rallied 7-11bps across the curve, with the front-end leading gains. On the data front, April core PCE came in at 0.2% MoM vs 0.3% expected, and consumer spending rose 0.5%, suggesting higher energy prices are only modestly weighing on activity.

IG Munis

The muni market outperformed treasuries on the week, with the benchmark AAA MMD curve rallying 14-16bps as geopolitical optimism, a light new issue calendar, and historic fund inflows converged to create an exceptionally strong technical backdrop. Lipper reported $2.33bn of inflows, the second highest weekly figure on record, with IG funds capturing the overwhelming share at $2.02bn. According to JPM Research, BWIC volumes fell 13% on the week while hit rates rose 11% and customer purchases jumped 10%, reflecting a market where buyers are firmly in control.

New issues were digested with ease, with high-grade deals like the $2.1bn NYC TFA transaction bumping 8-10bps during its institutional order period, a notable move for a name most accounts are already full on. Similarly, the New Orleans GO deal, a name which had been downgraded as much as 3 notches by Moodys earlier this year, came 5bps tighter than pre-market and still saw oversubscriptions as high as 23x. After being bumped 22bps, it traded a further 21bps tighter on the break.

With June reinvestment cash kicking in next week, we are now entering the seasonally strong June through August period where significant coupon and maturity payments historically provide a strong demand tailwind. Next week's calendar is estimated at $15-20bn, but with this much cash in the system we expect it to be well absorbed. Smaller deals that slip through the cracks may need to offer modest new issue concessions to clear, but the overall tone should remain highly constructive.

HY Munis

The HY market mirrored the broader muni rally, with benchmark names finishing the week meaningfully tighter. Buckeye Tobacco, Cofina, and GA SR400 all tightened steadily throughout the week, finishing ~15bps better than last Friday's close. Secondary volumes were relatively unremarkable, with HY BWICs up just 2% and customer purchases dropping 9%. Hit rates jumped 11% as bidders aggressively stepped up to fill their needs wherever they could find supply.

Turning to the primary, new issue participation continues to be one of the few pockets of alpha to be had in this market. An $89mm BB+ FL senior living deal was heavily oversubscribed and bumped 14bps, while a nonrated CO development district that priced last week at 6.50% and had already rallied 20bps on the break, continued tightening further to 6.10% this week. A nonrated multifamily housing deal told a similar story, pricing at 6.17% last week before trading up to 5.75% by Friday.

With only a handful of HY deals on next week's calendar, the supply/demand imbalance shows no signs of easing. Many transactions continue to see double digit subscription levels and trade up significantly on the break, and while the most speculative structures may require some additional tweaking to clear, investor appetite for run-of-the-mill HY paper remains extraordinary.

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Market Commentary

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