

General Commentary

The back-and-forth nature between hope and fear over the Middle East conflict persisted, causing rates to ping pong throughout the week but ultimately ended just +/-2bps across the entire curve. Early in the week, the ceasefire appeared to be crumbling, but by mid-week, President Trump cited great progress in negotiations with Iran. Reports emerged that the two countries were getting close to agreeing on a 14-point MOU that would set a moratorium on Iranian nuclear enrichment, lift US sanctions, and open the Strait of Hormuz. In economic news, focus was squarely on the state of the labor markets which proved resilient. The ADP Employment report showed private payrolls rising the most since January 2025, Continuing Jobless Claims hit the lowest since January 2024, and a solid Nonfarm Payrolls report showed the job market stabilized after last year's limited growth.

IG Munis

The muni market mostly matched the moves in treasuries, with the front end off by 2bps while longer maturities saw yields fall by 2bps. The story was largely the same, with strong demand beyond 15y with lots of cash to put to work, May 1st reinvestment money hitting, and robust inflows. Lipper reported that \$1.845bn flowed into mutual funds, with almost \$1.3bn into IG funds alone. The new issue calendar was digested with relative ease, with most high-grade deals seeing oversubscriptions of ~5-10x. BWIC volumes rose 11% and customer purchases jumped 16% relative to the prior 5-week average, according to JPM Research, as accounts looked to take advantage of the positive tone amidst the growing buyer base scrambling for paper. With the market historically rich, we don't see much scope for strong outperformance but also don't expect the heavy upcoming primary calendar to derail the momentum, especially as we rapidly approach the seasonally strong summer months.

HY Munis

Like IGs, the HY market had a relatively uneventful week as the major themes that have been driving performance persisted. HY BWICs continued to fall, with JPM reporting -30%, as the need to sell is nearly non-existent. Customer purchases jumped 49% as buyers have gotten increasingly desperate and sought out offerings from holders. Dealers reported that demand for max yield and less liquid paper remained strong, with several trades getting done into specific inquiries. As an example, a stressed senior living borrower that looks likely to fall into distress later this year when they tap their DSRF, saw their first prints of >1mm bonds since last December with bonds trading in the 9% area. Benchmark names mostly matched the broader market and generally traded 2-3bps stronger. Meanwhile, new issues continued to offer an opportunity to earn alpha for those that can get a decent sized allocation on a hot deal. Even smaller deals, such as a \$26mm nonrated UT special assessment district that printed to just 3 accounts saw a dealer making an up 32bp bid on the break. With the amount of cash chasing such little supply, we expect the market to remain imbalanced for the foreseeable future.

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Market Commentary

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