General Commentary

Hopes for a near-term resolution to the US-Iran conflict drove markets this week, with oil prices falling from roughly $93 to $87 a barrel as President Trump signaled he was actively engaged at the highest levels of Iranian leadership to reach a negotiated end to the war. Treasury yields fell 5-7bps on the week, with the bulk of the move coming on Thursday after Trump called off planned military strikes against Iran. The market pared gains a bit on Friday as conflicting messages from both sides kept some uncertainty alive, though participants appear to be holding their breath for an interim peace deal as soon as this weekend.

IG Munis

The muni market lagged the treasury rally, with the benchmark AAA MMD curve cut 2-7bps as accounts took stock of just how far munis had run. The belly underperformed as SMA accounts continued to spend down their June 1 reinvestment cash. The long end held up better, supported by a relative lack of supply in those tenors. After more than two straight weeks of outperformance, ratios had reached untenable levels and buyers pulled back. Lipper reported inflows that, while extending the positive streak to 8 straight weeks, came in well below the recent pace. According to JPM, BWICs rose 12% and customer purchases fell 11%, reflecting a market where sellers were more active and the urgency to buy had faded.

New issue supply remained heavy for the second consecutive week above $15bn, and the mood was noticeably different from the week prior. Deals that would have been multiple times oversubscribed a week ago were getting done with smaller books, and a few left small balances. Investors appear willing to continue absorbing paper but are no longer willing to reach. With the June 15 reinvestment wave arriving next week and the calendar expected to thin to around $8bn for the holiday-shortened Juneteenth week, the near-term technical picture should offer at least a modest improvement.

HY Munis

The HY market had a mixed week, with most names either flat or modestly wider and a handful bucking the trend. Buckeye Tobacco underperformed, giving back roughly 10-12bps on the week, with some of the weakness potentially tied to the market continuing to digest recent NAAG settlement data and lingering fears of impending downgrades across the sector. Names like NTE Mobility Partners and Cofina were unchanged to slightly wider, while Chicago BOE managed to grind a few bps better. According to JPM, HY BWICs rose 38% and customer purchases fell 11%, with dealers noting that holders were finally willing to offer some bonds. However, these offerings were typically a little above evals or recent trade prints and buyers were less willing to step up to meet them.

The notable exception to the week's muted tone came from recent new issues, which continued to trade well after pricing. The Detroit Bedrock and Resort Core deals from last week both moved meaningfully tighter than where they priced, as accounts were eager to build exposure to new names. With a handful of $100mm+ deals expected to come to market next week, significant cash still on the sidelines, and a primary calendar that has offered limited HY supply all year, we expect most of those transactions to see solid interest.

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Market Commentary

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