General Commentary

A recurring theme of late, this week was defined by a tug of war between geopolitical flare-ups and resilient economic data. Tensions between Israel and Lebanon escalated early in the week before President Trump claimed a ceasefire was reached, while US-Iran exchanges continued to test the fragile calm that has held since the early April ceasefire. On the data front, the ISM Services survey rose to a three-month high in May, ADP showed US companies added the most jobs since January 2025, and Friday's NFP report delivered an above-consensus 172,000 jobs with the three-month average reaching its highest level in over two years. Treasuries struggled to find a footing against that backdrop, with the 2-year climbing 16bps and the 10-year rising 10bps. New Fed Chair Warsh has his work cut out for him as Fed Funds futures moved to price in over 100% probability that a rate hike will be needed by the end of the year.

IG Munis

Against a week of meaningful Treasury selling, the AAA MMD curve rallied 4-5bps, a striking divergence that reflected the weight of cash pressing into the market. Lipper reported inflows of $1.416bn into weekly reporting municipal funds, marking the 26th inflow out of the past 28 weeks. June 1 reinvestment cash hitting accounts added further fuel. According to JPM, weekly BWICs fell 5%, hit rates rose 3%, and customer purchases climbed 9%, consistent with a market flush with cash and reluctant sellers.

The real story this week was the new issue market. Supply was the heaviest in nearly a year, and rather than strain the market, it was met with overwhelming demand that surprised many participants. A $1.2bn Aa2-rated prepay energy deal backed by Alphabet/Google as the funding recipient was announced Wednesday for the following week but was accelerated to Thursday given strong initial feedback. The $1.1bn 9-year maturity came at +103, was bumped 12bps, and then traded up another 22bps on the break. A $429mm A1-rated NY Convention Center deal was 19x oversubscribed out long and bumped 19bps. Even a super high-quality name like a $399mm Aaa/AAA Tri County Metropolitan Transportation deal was 6-10x oversubscribed and bumped a similar amount. The fact that an $18bn supply week was absorbed this cleanly, on a week where rates sold off nonetheless, speaks to just how much cash is in the system and how hungry accounts are to put it to work.

HY Munis

The HY market told a familiar story. Generic benchmark names held in but largely sat out the broader market rally, with spreads essentially flat on the week. Generic names like Buckeye Tobacco, Cofina Sales Tax, and NTE Mobility Partners were unchanged to 1bp better on the week. Different names fared modestly better, grinding 3-4bps tighter. According to JPM, HY BWICs fell 8% while customer purchases surged 44%, a clear signal that holders are reluctant to sell and buyers are eager for paper.

With secondary supply scarce and generic names already trading at tight spreads, the new issue market continues to be the most compelling place for HY investors to source alpha. The $116 million nonrated downtown Detroit development deal was heavily oversubscribed, bumped 30bps, and traded up 12bps on the break. The $435 million nonrated Resort Core development deal in Deer Valley, Utah saw long bonds 10-11x oversubscribed and bumped 12.5bps, with the deal expected to free up next week. Investors continue to chase these deals on the break as the new issue calendar remains the primary vehicle that enables them to put cash to work and build meaningful size in names that rarely surface in the secondary. With BWICs running light and cash levels in the system as high as they are, we see little reason to expect the bid for HY new issuance to soften any time soon.

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Market Commentary

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