General Commentary

Just as US and Iran tensions appeared to be receding, renewed military strikes brought them back to the center of the macro narrative this week. The US said it began new strikes in retaliation for attacks on commercial vessels, and Iran responded by targeting US bases in the region. The escalation reignited fears over oil prices and inflation, and Treasury yields rose 7 to 8bps across the curve. Oil whipsawed along the way, surging over 8% midweek before paring some gains as traders assessed slowing traffic through the Strait of Hormuz. The June FOMC minutes, released midweek, were read as less hawkish than some had feared, even as they laid out scenarios in which further policy firming could be warranted. Meanwhile, economic data continued to point to resilience. June ISM Services showed activity expanding at a slightly slower pace, while employment turned positive for the first time since February. Weekly jobless claims printed in line at 215k, and still-low continuing claims suggest downward pressure on the unemployment rate.

IG Munis

Munis outperformed Treasuries but could not fully resist the selloff. The front end and belly were cut just 1bp, while the long end gave up 5 to 6bps. Valuations had richened to the point that 2y and 30y MMD/Treasury ratios touched YTD lows, and that finally drew some pushback midweek. According to JPM, BWIC volumes rose 15% on the week as investors looked to take advantage of the strong market, especially in the long end where 20y+ volumes jumped over 60%. On the other hand, Lipper reported $1.376bn of inflows, extending the positive streak to 12 weeks, with demand overwhelmingly favoring higher-quality funds. Despite the influx of new cash, the new issue market bore the brunt of the weaker tone. Deals came at concessions to get done, particularly in 10y and longer maturities, and underwriters were left with sizable balances across many transactions. Competitive deals in particular sat largely unsold on the winning dealers' books.

HY Munis

High yield largely tracked the broader move, with generic names drifting alongside MMD, such as Cofina and Puerto Rico GOs closing the week off 5-6bps. Buckeye Tobacco was the notable exception as it continued to widen. The name was off as much as 18bps intraweek before paring losses to close 13bps wider. Dealers pointed to easy liquidity, accounts overexposed to tobacco, and spillover from the Nassau default. New issue told a very different story. Even as the secondary softened and inflows slowed to a trickle, demand for new deals stayed intense. A $41mm nonrated UT development district was 15x oversubscribed and bumped 25bps upon repricing, then traded up another 20bps on the break. A $24mm BB+ charter school deal saw its order period terminated early and bumped 15bps. A BB+ MA student housing deal from last week continued to trade well, gaining 10bps even on the session MMD was cut most. We continue to see the strongest performance concentrated in oversubscribed new issues, where a light calendar and limited supply of different names in the secondary is driving outsized demand.

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Market Commentary

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