General Commentary

Cooler inflation data took center stage this week, overshadowing an intensifying US/Iran conflict and pulling the front end of the curve lower. Rates opened under pressure after Fed Governor Waller flagged concern over the elevated pace of core inflation and warned another hot print could force the Fed to consider tightening, while the US moved to resume its blockade of Iranian ships through the Strait of Hormuz. The tone flipped on Tuesday. Headline CPI fell for the first time in six years, core came in flat on the month, and the annual pace eased to 3.5% from 4.2%. The closely watched Supercore gauge dropped 0.2%, matching its largest decline since the pandemic, and the front end rallied as much as 10bps intraday. A softer PPI print reinforced the move, and while attention swung back to the Gulf late in the week, rates held their ground. The front end finished 2-3bps lower, while longer tenors were little changed. Brent crude jumped ~17% on the week, but the cooler inflation data won out, causing markets to pare the odds of a hike later this month to 14% from 33%.

IG Munis

After weeks of grinding to YTD ratio tights, municipals finally caved to the pressure. The AAA MMD curve was cut across the board, with the belly bearing the brunt. The 5y and 10y cheapened 11-13bps, while the 2y and long bond shed 7bps. A relentless new issue calendar and increasingly selective accounts drove the move. Secondary supply built alongside it, with JPM reporting bid-wanted volume up 8% on the week, led by a 31% jump in 10y and longer paper, as customer purchases slipped 4%. Cash was not the problem. Lipper reported $1.36bn of inflows, the 13th straight week of positive flows. Instead, tight ratios and a deep menu of new issues have left investors choosing carefully where to participate, with demand lukewarm for most deals except rare names or those priced significantly wider than secondary comparisons. Aquarion Water proved the point, as the $2.4bn A1/A- deal came cheap, drew $71bn in orders, and was as much as 30-40x oversubscribed in some maturities. It bumped up to 38bps upon repricing and traded up another 20-25bps in the secondary. The widely held $2.4bn New York Thruway PIT competitive deal told the opposite story, drawing few customer orders and printing wide to the secondary.

HY Munis

High yield saw more of the same, with benchmark names drifting higher in yield alongside the broader market. Demand continued to be supported by another week of modest HY inflows (+$265mn), which kept the bid firm for well-structured new issues even as generic names drifted with the tape. Cofina closed roughly 5bps cheaper on the week as accounts stayed selective. Buckeye Tobacco was a modest exception, tightening about 4bps as it recovered from the wides it hit last week. The new issue market continued to buck the trend. Million Air Two, a $157mm nonrated FBO, saw its long bonds more than 25x oversubscribed. The deal bumped 30bps upon repricing and traded up another 25bps in the secondary.

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Market Commentary

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