General Commentary

A run of tame inflation data extended the prior week's dovish turn, though the relief was confined to the front end. Core CPI landed on expectations with a 0.2% monthly gain, easing the annual pace to 2.5% and matching the slowest reading since March 2021. PPI decelerated in July as well, held down by softer energy and food prices. That pulled September hike odds down to 32%, while trimming the odds of a hike by year-end to below 100%. The 2y rallied 4bps in response, but the long end cheapened 4-6bps, extending the steepening of recent weeks. Oil ran counter to the disinflation theme. Brent crude prices eased early on optimism over reopening the Strait of Hormuz, then reversed higher to close above $88 after Treasury Secretary Bessent vowed unprecedented economic pressure on Iran. Friday brought weaker Retail Sales and Consumer Sentiment, a sign that growth is stalling and reason for the Fed to hold yet yields still backed up into the close.

IG Munis

The constructive tone since the turn of the month carried through this week as munis held firm and outperformed treasuries. The AAA MMD curve was bumped 2bps from 2-10y, while the long bond was left unchanged, richening ratios that had cheapened throughout July. The secondary market was somewhat quiet. According to JPM Research, BWIC volumes ran about 10% lighter on the week. Meanwhile, Lipper reported $759mn of inflows, a 17th straight week of gains, though the pace cooled from the prior week. For the second straight week, all attention seemed to be on the new issue calendar. A $573mm A3/NR/A Miami Seaport deal drew 8-11x oversubscriptions and was bumped 10-12bps upon repricing. A $106mm Aa2/AA Arizona State University deal saw more than $500mm in orders, with maturities out to 13y tightened 5-8bps. By the end of the week, dealers noted SMA cash starting to dwindle and a growing list of recent new issues being offered in the secondary. With next week's calendar jumping to roughly $16bn, the August 15 reinvestment wave should aid digestion. However, after the recent bout of outperformance, accounts have grown more price sensitive, particularly in the more common names and sectors.

HY Munis

Coming off of last week's rally, the HY market was quiet, with little in either direction to move spreads. Generic benchmark names gave back a touch, with Buckeye Tobacco and Cofina each closing about 3bps cheaper on the week and the bidside on Baa3 rated Georgia SR 400 softening by 1bp relative to last Friday. Unlike last week that saw recent new issues continue to tighten, a nonrated Missouri development district that freed up last week and had traded up 20bps on the break changed hands again this Friday at that exact same level. New issue was all but nonexistent, with nothing larger than $50mm pricing on the week. With spreads still historically tight, we continue to favor patience rather than broadly reaching for yield. Excess returns will likely come from certain new issues priced at a concession or smaller sized but higher quality off the run names that may be overlooked by most investors.

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Market Commentary

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