General Commentary

The hawkish repricing that defined the prior week reversed, as Middle East de-escalation and a soft jobs report pulled the odds of a September hike back below even. President Trump called off a planned strike on Iran after Gulf allies pressed for further talks, and signs of progress on reopening the Strait of Hormuz sent Brent sharply lower, from $88 toward $80. That easing risk premium set a firm tone early, though the path grew less certain midweek as the US position on Hormuz blurred, and a report that Chair Warsh stood ready to hike if inflation held elevated added a hawkish undertone. Friday's release of the Nonfarm Payrolls report settled it. The US shed 23k jobs in July, prior months were revised down by 103k, and wage growth slowed to 0.1% on the month. Yields fell 3-5bps on the report and finished 7-10bps lower on the week. Fed Funds Futures cut September hike odds to 44%, down from 72% last week.

IG Munis

Munis rode the Treasury rally and then some. The AAA MMD curve bumped 10-14bps inside 10 years with the belly leading, while the long bond lagged at 6bps. That left munis outperforming Treasuries across the front and belly, richening ratios that had cheapened over the prior month. The main story was the new issue calendar, the largest of the year. Deals priced into healthy subscriptions, accelerations, and repricings all week. Dealers noted that deals were digested about as well as anyone could have hoped, supported by August 1st reinvestment cash and a 16th straight week of Lipper inflows, which totaled $1.308bn. July's underperformance proved essential, providing the buyer base a much more attractive risk/return profile than just a few weeks ago. The largest deal, a $1.5bn Aa2/AA NYC GO, was bumped 3-9bps across the curve and cleared with long-end spreads of +36-43bps. That stands in sharp contrast to the $1.5bn Aa1/AAA NYC TFA deal two weeks ago, which needed three order periods and widened each time to eventually clear at +50 in the belly. In the secondary, JPM Research noted BWIC volumes fell 9% on the week while hit rates rose 10% and customer purchases jumped 25%, a sign of firm underlying demand. The pace of upcoming new issue should prove manageable given the ongoing inflows and reinvestment cash still on the sidelines, however, with a seasonally weaker Fall right around the corner, investors will likely be more sensitive to valuations if they start ticking towards aggressive levels again.

HY Munis

The tone in high yield firmed markedly. After several weeks of drifting cheaper, generic benchmark names snapped back and outperformed both Treasuries and MMD. Dealers noted the improving macro backdrop helped the market rally, with ETF inflows lifting index names earlier in the week before the strength broadened to non-index credits and a degree of FOMO set in after the recent backup. Buckeye Tobacco tightened 12-13bps back into the low 6.80s, while Cofina 5s of 58 changed hands around 5.09% versus 5.26% last Friday. At the same time, the sought-after credits that have outperformed in recent weeks stayed firmly bid. A BBB California healthcare deal that priced the prior week kept trading up on the break, with prints running 30bps through original levels. JPM Research pegged HY BWIC volumes up 23% on the week, but customer purchases surged 76%, underscoring how strong demand has been. Lipper reinforced the shift, with HY funds swinging back to inflows after two weeks of outflows. New issue was scarce, but a $74mm nonrated North Carolina senior living deal drew outsized interest, bumping 17bps in its 35y tranche and placing with 20 separate investors. With macro volatility abound, it remains to be seen whether the late July weakness was just a blip, but with spreads near the tightest levels in a decade, we expect investors will continue to favor new and different names with solid fundamentals underpinning the credit story.

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Market Commentary

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