

General Commentary

A holiday-shortened week brought a decisive hawkish shift in the rate outlook, as the market moved to fully price a September hike and a second move by December. Hotter inflation data drove much of the repricing. Core CPI rose 0.3% on the month, a tick above expectations, while PPI landed in line but left core wholesale prices running at a still-hot 4.6%. Fed Funds Futures ended the week assigning 88% odds to a September hike, up from 62%, with a full second hike now priced by year-end. The selloff was concentrated up front. The 2y and 5y cheapened 24-26bps and the 10y backed up 19bps to its highest close since October 2023, while the long bond rose 8bps, flattening the curve sharply. Oil compounded the move, with Brent climbing from roughly \$96 to \$104 and WTI crossing \$100 as fresh strikes between the US and Iran stoked supply fears. A pair of upsized Treasury long-end buybacks only added to the pressure. Desks had positioned for a larger operation, so the \$6bn ceiling disappointed, and the Treasury ultimately purchased just \$5.19bn, feeding skepticism that repo-funded buybacks do little to address the deficit and issuance backdrop.

IG Munis

Munis offered no shelter from the selloff. The AAA MMD curve was cut 17-23bps, with the bulk of the damage coming Thursday, when yields were cut as much as 15bps in the largest single-session move since April 2025. Munis held in against the front-end Treasury selloff but lagged badly in the belly and long end, cheapening the 10y ratio toward 75% and the 30y toward 92%. That left absolute yields at their highest in about a year and a half at the 10y and roughly fifteen years at the 30y. Secondary supply was relentless. According to JPM Research, BWIC volumes ran about 50% above the five-week average, with Thursday's \$4.8bn session ranking among the highest ever. Dealers characterized the bulk of that supply as tax-loss swapping rather than forced selling tied to redemptions, and blocks traded in orderly fashion despite the volume. Lipper, by contrast, extended its inflow streak to a 21st week, though the \$193mn headline masked a clear loss of momentum, including the largest daily outflow since late March. The new issue calendar buckled as the week wore on. A \$1.58bn Aa2/AA NYC GO left with balances, the \$797mm NTTA deal moved to day-to-day, and a \$770mm A1/AA- TBTA deal widened to clear, with several other deals working on post-pricing solutions. Friday brought the first green shoots, as fresh inquiries emerged and better buying bumped MMD 2-5bps at the long end. We believe the reset has left valuations the most attractive in years, with the taxable equivalent yield on 30y AA paper reaching multi-decade highs. Still, buyers likely need to see the long end stabilize before

returning in size, and unlike last summer, munis no longer screen cheap to corporates. A lighter \$9bn calendar next week should help, though the massive wave of tax loss selling is likely to continue to pressure the market.

HY Munis

High yield held in on a relative basis even as the broad selloff pulled yields higher. The spread between the HY and IG index yields compressed to 159bps, the narrowest since the global financial crisis. Within the space, the cheapening was led by the lowest-yielding, highest-quality names, as the market fixated on absolute yields rather than spreads. Baa3/BBB- rated Georgia SR 400 moved to 5.65% from 5.35% the prior Friday, and Cofina cheapened to around 5.45% from 5.25%, while higher-yielding Buckeye Tobacco, among the most liquid names in the market, gave back only modestly to close near 7.00%. Supply was heavy here as well, with JPM Research pegging HY BWIC volumes about 72% above the recent average, and HY funds slipped to outflows on the week. New issue was quiet, with the week's primary activity concentrated in high grade. With the spread to investment grade now at a post-crisis extreme, we continue to favor discretion over broadly reaching for yield.

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Market Commentary

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