

General Commentary

The Fed delivered its first rate hike since 2023, and the hawkish message that came with it reset the outlook for the rest of the year. The 25bp move on Wednesday was widely expected, but the dot plot did the damage, with 16 of 18 officials projecting at least one more increase this year and Chair Warsh reiterating his concern over still-elevated inflation. Fed Funds futures moved to fully price a December hike, assigned roughly a one-in-three chance of a second by year-end, and now assumes three hikes by June. Pressure had been building into the meeting. The 10y closed above 5% on Tuesday for the first time since 2023 as oil climbed on Middle East supply disruptions, and Wednesday's Retail Sales report added to it, rising the most in five months with the control group up 1.4%. The selloff stayed concentrated up front as the curve continued to flatten. The 2y cheapened 12bps and the 5y 8bps, while the long bond ended 2bps lower. The back half of the week whipsawed. Rates rallied 7-10bps Thursday as Brent fell, with Saudi Arabia moving to restore its East-West pipeline and routing barrels to Asian refiners outside the Strait of Hormuz. However, Friday reversed much of that, as the front end backed up 10bps on a BOJ rate hike and news that Saudi Arabia would halt shipments to Europe after export pipelines were damaged. Brent still finished marginally lower near \$103.

IG Munis

Munis underperformed for the 5th straight week. The AAA MMD curve was cut 19bps at the 2y and 10bps at the 5y, easing to 5bps at the 10y, while the long bond finished unchanged. Secondary supply was heavy. According to JPM Research, BWIC volumes ran about 64% above the five-week average, itself climbing, with Thursday's \$5.3bn session the largest since April 2025. Lipper compounded the pressure, reporting \$1.8bn of outflows, the largest weekly redemption since April 2025 and the first after a 21-week inflow streak. Even so, the market absorbed the paper in orderly fashion. Dealers noted that with the Fed behind them, accounts turned back to valuations and absolute yields, with duration buyers stepping in 5-10bps through stale evaluations and high grades now trading where yield-oriented sectors sat just weeks ago. That drew renewed crossover and retail participation. The primary calendar pressed on, with roughly \$6bn pricing into the backup, and in the secondary the Aa3/AA- AL TRBTA enhanced 3rd lien 2066s that came last week firmed to 5.27% by Thursday from a 5.32% dealer sale the day prior. We believe the continued reset higher in yields should keep pulling crossover and retail buyers back. Still, with roughly \$12bn on next week's calendar and secondary supply likely to remain elevated due to tax loss selling, the market will likely remain choppy over the near term.

HY Munis

High yield was much quieter than high grade. According to JPM Research, HY BWIC volumes ran only 17% above average and customer purchases fell by 5% on the week. With IG absolute yields growing more compelling by the day and high yield spreads collapsing even further to post-GFC tights, accounts have been moving up the quality curve, and there was little price discovery as a result. The names that did trade drifted 0-5bps wider, with Buckeye Tobacco closing ~2bps softer near 7.06%, Chicago BOE 2047s moving 5bps wider to 6.30%, and Cofina roughly unchanged. HY funds saw \$584mm of outflows on the week, a meaningful figure, and the index is only a few weak sessions away from turning negative on the year, which could invite more selling pressure. With valuations this stretched, we would be surprised to see spreads hold at current levels and continue to favor staying up in quality overreaching for yield.

Disclaimers

This report is confidential and a product of Birch Creek Capital, LLC (“Birch Creek”). It is intended solely for the information of the person to which it has been delivered by Birch Creek. The views and opinions expressed herein are subject to change without notice and Birch Creek is under no obligation to update or keep this information current or accurate. This report is being provided for general informational purposes only, and may not be disseminated, communicated, or otherwise disclosed by the recipient to any third party without the prior written consent of Birch Creek. Birch Creek Capital, LLC is registered with the Commonwealth of Pennsylvania as an investment advisor, which in no way implies that the state of Pennsylvania has endorsed any of the entities, products or services discussed herein. This commentary does not constitute an offer of to sell securities or the solicitation of an offer to purchase an interest in Birch Creek Credit Value Fund, LP (the “Fund”) or any other Birch Creek products. Such an offer may only be made to Accredited Investors or Qualified Clients and by means of a confidential offering memorandum. Additional information regarding the Fund or other Birch Creek products is available upon request.

Any information in this document related to past performance of the Fund or other investments managed by Birch Creek should not be relied upon as an indicator or guaranty of the future investment performance of any Birch Creek present or future investment vehicle. Birch Creek’s investment strategy involves the risk of loss. Any projections of future performance in this document are based on a number of assumptions and Birch Creek Funds’ actual performance may differ significantly from projected performance. There is no assurance that a portfolio will achieve its investment objective and please be aware that the portfolio may be subject to certain additional risks described in the Fund’s confidential offering memorandum.

Market Commentary

This report includes forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning, or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties, and contingencies. Forward-looking statements are not a promise or guaranty about future events.

Neither Birch Creek or our information providers shall be liable for any errors or omissions or inaccuracies, regardless of cause, or the lack of timeliness for any particular reason. The recipient should not assume that such information, even if accurate as of its date, is accurate as of the date hereof. None of Birch Creek is under an obligation to update the information contained in the materials attached hereto. THERE ARE NO WARRANTIES, EXPRESSED OR IMPLIED, AS TO ACCURACY, COMPLETENESS, OR RESULTS OBTAINED FROM ANY INFORMATION CONTAINED HEREIN.