

General Commentary

A fresh exchange of US and Iran strikes, the first in about a month, reignited the oil-driven selloff and pushed Treasury yields to fresh highs. Brent ran from \$88 toward \$96+ as tensions around the Strait of Hormuz built, reviving inflation worries alongside the Fed's hawkish recalibration under Chair Warsh and a heavy slate of government and corporate supply. The 10y crossed 4.75% midweek, its highest since January 2025, and the 30y set a YTD high. Dovish remarks from Fed officials Williams and Waller helped yields recover some of the move. However, Friday cut the other way, as August payrolls topped every estimate and unemployment held steady, lifting the front end 4bps while the long end held. Fed Fund Futures now price roughly 60% odds of a September hike and a December move in full. Next week's CPI print looms as the swing factor.

IG Munis

Munis fared far worse than Treasuries. The AAA MMD curve cut 11-15bps, steepest at the long end, cheapening ratios back to around 90%. Supply drove the secondary. According to JPM Research, BWIC volume reached roughly \$14bn, the heaviest week since the April 2025 selloff and about 36% above the trailing five-week average, though firm hit rates and customer purchases showed real money meeting the paper. Lipper, by contrast, reported \$138mn of inflows, a 20th straight week, with the pace slowing sharply. New issue added to the pressure. A \$1.93bn Aa1/NR/AA+ DASNY Sales Tax competitive deal cleared 10-15bps wider than the name's typical spreads and repriced secondaries cheaper, though several large negotiated deals such as Chicago O'Hare airport and AZ Salt River sales tax freed up better later in the week as buyers engaged the new levels. The backup has done its work on absolute yields. With 30y MMD at 4.70%, many high grades now price at or cheaper than 5%, levels that pencil to an 8.5% taxable-equivalent yield for an investor with no state tax and 9.5% to 11% for residents of the highest-tax states, on par with long-run equity returns. That is helping to draw interest back into the market by retail investors. We think that bid deepens if supply keeps pressuring the market. With net issuance set to ramp into the fall, we would expect crossover accounts to step in more forcefully around a 95% ratio and help limit further weakness.

HY Munis

High yield could not escape the duration selloff, though the damage was contained. Bonds traded heavy with duration for sale as a defensive bid met elevated bid-wanted volumes through the week. Generic benchmark names held in better than the tape, with Buckeye Tobacco off just 4bps to near 6.94% and Cofina about 8bps cheaper, both outperforming the 15bp cut in long MMD. That left HY spreads to IG near the tightest of the year, within 8bps of the April 2025 lows. According to JPM Research, HY BWIC volume rose 73% on the week

while hit rates climbed 27%. The pressure landed instead on less common names, which had lagged the benchmarks and only now caught up to the broader move. A BB rated Indiana student housing block that a dealer sold at 6.11% last week resurfaced on a Friday BWIC and was purchased at 6.31% and put away at 6.29%. With generic spreads near their tights, we continue to favor new issues that price at a concession and smaller, higher-quality off-the-run names that most investors overlook.

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Market Commentary

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