General Commentary

A deepening scare over the durability of the AI capex boom overshadowed a run of hot inflation data and drove a flight to safety. CPI rose at its fastest pace since April with core accelerating to 2.6%, PPI posted its largest gain in more than four years, and retail sales rose 0.8% but the gain was almost entirely gasoline, with the control group up just 0.1%. That data briefly sent the front end sharply higher as traders added to October hike bets, before rates reversed course as a selloff in technology shares and growing fears that the Fed could overtighten into a slowdown sent investors into Treasuries. The bid held even as Brent crude pushed toward $110 on Friday, when prospects for near-term supply relief faded, underscoring how firmly the growth scare had taken over. Treasuries finished richer across the curve, with the 2y down 8bps and the long end 18bps lower. Futures still fully price a December hike, but the June path eased toward fewer than three.

IG Munis

The AAA MMD curve bumped 23bps across the 2y to 10y and 17bps out long, outpacing the Treasury rally across most of the curve and richening ratios by 2-4% inside 10 years. The move was powered by a sharp turn in the technical backdrop. Lipper reported $1.612bn of inflows, as a second consecutive record week of ETF demand masked heavy open-end fund redemptions, and tax-exempt money market funds pulled in another $4.1bn. Both ETFs and mutual funds increasingly stepped in as buyers, with outflows slowing on better performance, NAV recovery, and the need to put tax-loss sale proceeds back to work. That demand met a wall of supply. According to JPM Research, the Tuesday-to-Thursday bid-wanted total reached $24bn, the highest three-day pace since the bank began tracking the data in 2019 and 38% above the five-week average, yet the hit rate held firm at 59%. The ability to clear a record volume of lists without cheapening the tape underscored how firmly the bid had returned.

HY Munis

High yield joined the rally but lagged the high-grade move. Benchmark names firmed ~10-15bps, trailing the MMD bumps, with Buckeye Tobacco 55s around 7.40% from 7.50%, Cofina 58s near 5.63% from 5.75%, and Puerto Rico GO 2046s roughly 15bps better on the week. Sellers stayed in control even as the tape improved, and liquidity remained thin. JPM Research pegged HY bid-wanted volumes up 31%, though customer purchases fell 14% against recent history, a sign demand has not kept pace with the bonds coming for sale. The underperformance pushed the high yield index 4bps wider to investment grade on the week and 13bps wider since IG yields peaked in late September. We view that decompression as healthy given how tight high yield remains to IG, and expect the trend to continue. On the other hand, some new issues continue to offer attractive concessions and are seeing strong demand, such as a $305mm VA senior living deal that was bumped as much as 25bps on its term bonds.

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Market Commentary

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