General Commentary

A jump in oil and renewed fears over the AI trade drove a flight to safety late in the week. Rates had backed up to start as technology shares rebounded and French political turmoil pushed global yields higher, unwinding part of the prior week's rally. Sentiment turned midweek, when a 32% first-day collapse in a sizable South Korean data center IPO revived doubts about AI valuations. By Thursday those concerns had combined with a surge in crude, as Brent topped $111 after deadly attacks on Saudi Arabia raised supply fears, and Treasury yields fell 13-18bps on the day, their largest one-day decline since March 2023, with haven currencies such as the yen and Swiss franc also bid. Oil kept climbing Friday to its highest since May, above $117, as the attacks intensified and the war with Iran remained unresolved, pushing yields back up 4bps. Treasuries still finished richer across the curve, 3bps at the 2y and 10bps at the long bond, and the odds of a December Fed hike eased to 85% from fully priced a week earlier.

IG Munis

The AAA MMD curve bumped 34bps in 2y, 24bps in 5y, and 23bps in 10y, while the long bond bumped 10bps. The rally built on the heavy selling of recent weeks. Tax-loss harvesting continues to push record volumes of bonds out for the bid, but the proceeds are being reinvested just as fast, and that cash, alongside steady ETF and crossover demand, has turned the technical backdrop firmly positive. Separately managed accounts led the reinvestment, with retail order periods heavily subscribed even as mutual fund participation stayed muted. According to JPM Research, weekly bid-wanted volume reached $27.5bn, 12% above the five-week average, with daily totals yet to close below $6bn since early October. Even so, the bid held firm, as the hit rate ran 59%, 5% above average, and prints stayed stable against evaluations. Lipper reported $1.603bn of inflows.

The new issue calendar was among the heaviest left this year at roughly $13bn and was comfortably absorbed. Several deals accelerated from retail to institutional pricing on strong early books. A $741mm MTA deal drew $1.2bn of retail orders and moved its institutional pricing up a day, with the 11y coming 8bps tighter. A $320mm Pennsylvania Turnpike deal pulled in roughly $4bn of orders. Subscription was heaviest across the shorter and intermediate maturities, though it extended out to 30y on several deals, while mutual fund inquiry stayed light and the high-grade long end felt softer on tax-swap flow. Supply thins over the next few weeks around the Fed meeting, the election, and the Veterans Day holiday, which should lend further support to the tone.

HY Munis

High yield lagged the high-grade rally for a fourth straight week, and the gains that did come were concentrated in the higher-quality, lower-yielding names. Those that trade more like mid grades firmed with the broader move, including Cofina at 5.55% from 5.63%, Puerto Rico GO 4s of 2046 into the mid-5.40s, and long 4% coupon mid grades, which stayed well supported and hard to source in size. The higher-yielding and nonrated credits barely moved, as Buckeye Tobacco finished roughly flat near 7.40% and a nonrated Florida assessment district and a nonrated affordable senior housing name were little changed on the week. Dealers reported good two-way flow on elevated volumes, with short-yield and shorter average-life structures well bid, while liquidity further down the credit curve stayed strained and price discovery remained opportunistic, most notably in the charter school sector, where many yieldy names drew only one or two bidders. According to JPM Research, HY bid-wanted volume rose 17% while customer purchases fell 22%, a sign demand has not kept pace with the paper coming for sale. The underperformance pushed the high yield index another 5bps wider to investment grade, and Lipper recorded $756mn of high yield fund outflows. With high yield still trading historically tight to investment grade and funds in outflows, we think further decompression is likely.

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Market Commentary

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