

General Commentary

Brent fell Monday and Tuesday as WTI slipped back under \$100 and President Trump signaled openness to meeting his Iranian counterpart at the UN, with de-escalation hopes around the Strait of Hormuz building into Tuesday as Iran floated a reopening within a week and Saudi Arabia moved to restart its East-West pipeline. The tone flipped midweek. Crude reversed higher and a hot PMI print showed US business activity expanding at its fastest pace since July 2021, stoking fresh overheating concerns and sending Treasuries off hard, with the 10y jumping the most since April 2025 on Wednesday. The pressure carried into Thursday, when the 10y reached its highest level since 2007 and the 30y its highest since 2004, helped along by hawkish Fed commentary and a Treasury buyback that came in at just \$4.1bn against a \$6bn ceiling. Oil eased again Friday on reports of a phased US-Iran deal to reopen Hormuz, and the front end recovered into the close, leaving Brent just \$1 higher on the week near \$104 despite the round trip. The move showed up in Fed expectations, with the odds of a second hike by December climbing to 43% from 33% and the market now pricing close to three and a half hikes by June. For the week, Treasuries finished 8bps cheaper at the 2y and 13-16bps cheaper from the 5y out, with the long end leading the selloff.

IG Munis

The muni market bore the brunt of it, and the damage was severe. The AAA MMD curve was cut 45bps at the 2y, 39bps at the 5y, and 30bps at the 10y, while the long bond finished 18bps cheaper. With the dramatic underperformance, munis extended their run of weakness to a sixth consecutive week. The 10y and 30y MMD yields closed at their highest levels since 2008 and 2011, respectively.

Secondary supply reached historic proportions. According to JPM Research, bid-wanted volumes hit all-time highs, with Wednesday's \$7.36bn the largest par total on record and Thursday's \$6.94bn close behind. Those two sessions now rank as the two heaviest ever, and six of the ten largest BWIC days on record occurred this September. Volumes ran roughly 90% above the already-elevated five-week average on the week, and the strain showed in execution, with the hit ratio falling 8% to just 49% of items trading. Dealers pointed to tax-loss swapping and new issue cash raising as the primary drivers rather than outright redemptions, though it is increasingly clear that certain complexes are managing outflow and cash-raising pressure. Customers stayed engaged as well, with purchases up 47%, a sign that real money met at least some of the paper at the repriced levels.

The more important development was how far actual trading levels have drifted from evaluations. As bid-wanted cleared, prints came in significantly cheaper than stale marks.

JPM Research noted that Wednesday's prints averaged 15-25bps below prior evals, with block clearing levels down 20-40bps in many cases. By Thursday, bonds were trading an average of 18bps cheap to evals, though just 6bps for blocks of \$1mm or more, underscoring how wide bid/ask had become for smaller lots. The gap was starkest on Friday, when AA-rated 4% coupons in the 20y range, that are pricing well below their market discount cutoff levels, changed hands close to +100 in the mid-to-high 5% area, even as evals on the same bonds sat around +25. This matters well beyond any single print. With the IG index now carrying its longest duration since the financial crisis, and evals still lagging where bonds actually trade, performance is likely to take a more meaningful hit as marks catch down to the market. This does not bode well for future fund flows after an already brutal month of performance.

Lipper reported \$633mn of inflows for the week, partially recovering the prior week's \$1.8bn redemption that had snapped a 21-week inflow streak. The new issue calendar offered little relief. Per JPM Research, spreads widened meaningfully in this week's pricings, concentrated in the front half of the curve, as underwriters cleared paper into a market where new issue supply well outweighs reinvestment cash in the second half of September. Dealers did flag some pockets of support, such as high-grade long 4% coupons, high quality healthcare, and long NY names once levels reset. Absolute yields not seen in decades will draw some buyers back in, but with \$10-15bn on next week's calendar and tax-loss selling likely to persist, we expect the market to stay choppy unless there is a meaningful move lower in treasury yields.

HY Munis

High yield saw far less activity than high grade, as accounts stayed focused on increasingly cheap investment grade paper and continued to rotate up the quality curve. That thinner activity was a function of limited price discovery, not resilience. According to JPM Research, HY customer purchases rose just 8% on the week against a 79% jump in bid-wanted volumes, and on the worst days HY BWICs ran up more than 250% while generic BBB lists ran over 300% above average. The benchmark names moved roughly in line with the broader cut. Buckeye Tobacco and Cofina both closed about 18-20bps cheaper, similar to MMD, with Buckeye yields hitting its all-time highs.

Most other names told the same eval story as high grade, often more acutely and regardless of credit quality. On Wednesday, a BB-rated Florida charter school traded at 6.32% against a 5.96% eval, and a BB+ Massachusetts student housing block cleared at 6.15% versus a 5.94% mark. Friday brought more of the same. A nonrated Atlanta Gulch project traded at 6.02% on a dealer buy against a 5.72% eval, a Baa2/BBB- Pennsylvania bridges name was bid 5.85% versus a 5.64% eval, and a BB- Copper World 10y put bond traded 5.50% against

a 5.26% eval. In each case bonds cleared roughly 20-35bps cheap to where they had been marked, reinforcing how much room evaluations still have to adjust lower.

New issue was thin. No large deals priced, with primary activity limited to a couple of senior living and healthcare transactions in the \$30-60mm range, while a senior living acquisition deal and a larger new construction affordable housing deal were both postponed on market conditions. Even through the broad selloff, the spread between the HY and IG indices compressed further to a new post-crisis low near +145bps, while the HY index turned negative on the year and the IG index approached -4% YTD.

In credit-specific news, Brightline FL officially filed Friday for a prearranged Chapter 11 bankruptcy under a Restructuring Support Agreement with Assured Guaranty and a mutual fund ad hoc group. The roughly \$4.4bn of muni debt stays outstanding, and supporting holders will add about \$490mm of new senior and junior debt at the operating company. Operating company bondholders will defer three coupons into 2031 in exchange for a 1.0-1.2% cash fee that aims to give the railroad runway to grow ridership toward positive cash flow. Other than one small odd-lot print, the bonds did not trade at all on Friday, so it remains to be seen how the market will price in this news. As one of the largest issuers in the HY muni market, it is a situation worth watching closely.

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Market Commentary

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