## General Commentary

The Federal Reserve left rates unchanged and gave no clear signal on a December move. The statement drew two dissents, the hawkish Cleveland President Hammack and, more surprisingly, Governor Cook. Chair Warsh stressed the strength of the economy and labor market while playing down the risk of overheating and pointed to an every-other-meeting pace and a limited number of hikes. His disclosure of fewer scheduled policy votes in 2027 and 2028 lifted the term premium while the odds of a December hike eased to 71% from 85%. The data did little to change the picture, with third quarter GDP firm at 3.4% and core PCE in line at 0.3%. Rates rallied later in the week after disappointing Alphabet earnings revived fears over AI spending and sent investors fleeing into the safety of Treasuries. The curve bull steepened, with the 2y falling 10bps while the long bond finished little changed.

## IG Munis

The AAA MMD curve bumped 7-8bps up front and 18bps in 10y, while the long end underperformed with yields falling just 4bps. The rally extended the recovery of the past month. Tax-loss harvesting continues to push record volumes of bonds out for the bid, but the proceeds are being reinvested just as quickly, and that cash, alongside steady ETF and SMA demand, has kept the technical backdrop firmly positive. According to JPM Research, weekly bid-wanted volume reached $25.3bn, a 4% slowing from the tax-driven surge of recent weeks but still 2.1x the YTD average. Lipper reported $1.739bn of inflows, its highest since early July and a reminder that cash is not leaving the asset class even as the selling persists.

The new issue calendar came in near $9bn, above the $5-6bn originally expected for the week, as day-to-day deals returned. The headline deals drew heavy subscription, with demand concentrated inside 20y where SMA and ETF cash remains plentiful. However, sponsorship thinned out beyond 25y as the long end felt the weight of high-grade tax-swap flow. Supply quiets over the next few weeks around the election and the Veterans Day holiday, with only one sizable calendar before Thanksgiving. With front-end ratios back to historically rich levels and relative value healthier further out the curve, we expect investors will begin shifting towards longer duration. Lighter supply and seasonal reinvestment should support the tone into year end, leaving performance largely a question of rates.

## HY Munis

High yield firmed modestly but lagged the high-grade rally as Lipper reported $546mm of outflows. The benchmark names improved, with Buckeye Tobacco ~3-5bps better on the week at 7.35% and Cofina 5bps better at 5.50%. Buyers continued to exhibit caution, especially in weaker credits and sectors. On Tuesday, a 1mm nonrated New York charter traded at 6.45% against a 6.32% eval and was the only one of five charter names on that list

to trade. A separate 62-name bid list on Wednesday fared better, with 50 of the bonds trading, as senior living names drew the firmest bids and several cleared through their evals, while charters and other lower-quality credits found fewer bidders. According to JPM Research, HY bid-wanted volume fell 4% while customer purchases dropped 37%. This week's underperformance caused the HY index to widen another 6bps relative to IG and is now 23bps wider than the end of September.

New issue was quiet, limited to a handful of deals in the $20-40mm range. Next week brings two larger BB+ names in United Airlines and Chicago Board of Education, both well-known issuers with ample high yield debt outstanding. With high yield funds seeing continued outflows and spreads still historically tight, we expect the decompression theme to continue and favor staying up in quality. We see the best risk-reward in higher-quality off-the-run names where evals may still be stuck due to a lack of trade prints. We are more cautious on sectors with structural headwinds, such as charter schools and private higher education, however, certain improving sectors like senior living will likely remain well-bid. As credit dispersion rises, we believe this environment sets up well for more nimble, bottoms-up credit-focused buyers to outperform as they can pick and choose their favored borrowers, while broad-based index type buyers may be stuck with exposure to deteriorating sectors and highly speculative issuers.

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Market Commentary

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