General Commentary

Core CPI came in hotter than expected, rising 0.3% on the month in a broad-based gain and marking the last inflation reading the Fed will see before its December meeting. Hawkish Fed commentary amplified the move. Governor Waller had said a print of 0.3% or higher would warrant discussion of a 50bp hike, while Dallas Fed President Logan later backed at least two more quarter-point increases, possibly at a faster pace. A December hike is now all but certain. Markets also moved to price in three full hikes by June, with a 50% chance of a fourth by September. This is up from roughly two additional hikes that were expected to be needed just last week. Friday's PPI showed the fastest wholesale inflation since 2022 but landed mostly at or below expectations, trimming some conviction from the hawkish bets. On the geopolitical front, President Trump signaled the US no longer needed a deal with Iran, dashing hopes for a quick end to the war and adding fuel to the fire of the rate selloff. For the week, 2-10y yields rose 28-33bps while the long bond rose 21bps.

IG Munis

The AAA MMD curve was cut 23 - 26bps up front, and 15 - 17bps out long. Tax-exempts held in better than treasuries, but the market had little room to spare. Four straight weeks of outperformance had left munis richly valued coming into the week and ratios inside 15y pushed to three-month lows. According to JPM Research, weekly bid-wanted volumes ran 16% below the five-week average, dampened by the Veterans Day close, though hit rates fell 8% to just 47% as sellers proved unwilling to capitulate to a weaker bid side. Daily sale volumes built through the week, from a two-month low near $4bn on Monday to $6.6bn on Thursday. The uptick was the result of a turn in fund flows and accounts looking to take profits after a strong run, with Lipper reporting $176mm of outflows, the first negative print in six weeks. Primary supply was light, with prepay energy deals among the few notable prints as a Citi 10y deal came at a 15-20bps concession to recent secondary prints. Next week's calendar is expected near $11bn, a step up from the holiday-thinned slate and just slightly above the yearly average. With ratios rich and ongoing rate volatility, we expect underwriters to offer large concessions in order to tempt patient buyers back into the market.

HY Munis

High yield followed the market lower with a cautious tone but outperformed the high-grade move by a few basis points which led the HY index to tighten 1bp relative to IG after 6 straight weeks of widening. Buckeye Tobacco closed 13bps cheaper at 7.35% and Cofina was about 14bps weaker at 5.53% bid side, with most names tracked finishing 10-15bps worse on the week. Away from the benchmarks, a nonrated Michigan development district traded off about 14bps, and a block of a nonrated Utah development district that a dealer had bought the prior Thursday was resold 11bps cheaper. Last week's United Airlines deal, which had

traded as much as 38bps better on the break, changed hands 25bps cheaper on Friday. According to JPM Research, high yield and nonrated bid-wanted volume rose 6%, even as hit rates fell the most of any rating category, down 11%. Lipper reported $133mm of high yield outflows, a tenth straight week. New issue was quiet, though a $38mm BB+/Positive senior living deal showed that demand is still there for higher quality, different names. The deal came out 5bps tighter that its premarketing levels before being bumped a further 15bps, despite the MMD cuts happening elsewhere. Next week brings two BBB names of roughly $200mm each, with little else of size on the high yield calendar.

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Market Commentary

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