General Commentary

Democrats swept both chambers of Congress in the midterm elections and markets initially looked past the result. Investors bet that the main drivers of US growth would hold and that a divided government would curb further fiscal expansion, easing pressure on bonds and sending stocks soaring on Wednesday. The calmer tone broke on Thursday, when renewed doubts over the AI trade sank equities and sent investors into the safety of Treasuries, with the Nasdaq off more than 5% and chip stocks down 12% in their worst session since early 2020. Friday's jobs report then surprised to the upside, with payrolls up 165,000 and unemployment easing to 4.1%, while wage pressure stayed muted. Brent crude fell hard on the week, from $113 to $98, on bets the Dem sweep might hand President Trump a reason to end the war. For the week, 2-10y yields fell 7-8bps while the long bond fell 5bps. The odds of a December Fed hike edged up to 78%, even as the market trimmed expectations for further hikes beyond that.

IG Munis

November picked right up where October left off as the muni market outperformed for the 4th straight week. The AAA MMD curve was bumped 6bps in 2y and 10-12bps the rest of the way. Tax-loss harvesting is still pushing heavier volumes of bonds out for the bid, but the proceeds are being reinvested just as fast. That cash, alongside steady ETF and SMA demand, has kept the technical backdrop firmly positive. According to JPM Research, weekly bid-wanted volume eased to $20.0bn, 24% below the five-week average but still 1.6x the YTD pace, as daily totals slipped back below $5bn and swap urgency faded as the market has recovered most of the summer's losses. Lipper reported $287mm of inflows, a sharp slowdown from the prior week's three-month high, but a sign that cash is still arriving even as ratios and yields have become less compelling. The new issue calendar was well absorbed, with some day-to-day deals returning and prepay energy deals back in the money on the strength of front-end munis. The four-week rally has left muni to treasury ratios fair to rich up front, while better relative value remains further out the curve. With lighter supply, seasonal reinvestment cash, and absolute yields still attractive, we believe the market should hang in well through year end.

HY Munis

High yield joined the rally this week, though performance was uneven. The liquid benchmarks firmed with the market, as Buckeye Tobacco closed about 13bps better at 7.22%, in line with the MMD move, and Cofina rallied 15bps to 5.35%. In less common, smaller issuers, the bid was less enthusiastic. Senior living names still rallied 7-10bps with a FL nonrated recent new issue firming to 7.02% from a 7.11%->7.09% print last week and a nonrated CA startup being purchased by a dealer at 7.03% vs a dealer sale at 7.10% last

week. However, charter schools lagged, including one AZ name that traded at 7.02% after changing hands near 6.93% a week earlier and several credits printed anywhere from 10 to 40bps behind evals. According to JPM Research, high yield was the only rating category to see bid-wanted volume rise against its five-week average, up 6%. Lipper recorded $54mm of high yield outflows, a marked improvement from the prior week, but still denotes 9 straight weeks of outflows. With the broad underperformance, the high yield index widened another 6bps relative to investment grade.

New issue was the bright spot. A $375mm BB+ Chicago Board of Education deal priced Monday, with the 7% coupon bumped 2bps, and the bonds were bid up 14bps in the secondary by Friday afternoon. A $771mm BB+ United Airlines deal followed, drawing more than $6.5bn of orders and running as much as 15x oversubscribed in the 20y tranche, which was bumped 18bps and then traded up 38bps on the break. With high yield still historically tight to investment grade, we expect the decompression theme to continue. Even after this week's move, the index sits well inside the +190-200bps it has averaged over the past five years, leaving room to widen further.

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Market Commentary

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