

Bond Case Briefs

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Last Week in the Muni Market: Italian Government Debt Making Waves.

The Muni market was a passenger on the interest rate roller coaster last week. First, U.S. interest rates reacted to Sovereign Bond issues in Italy. Italian Government Debt was the big focus as a possible shift in administration flamed fears of Italy becoming more indebted and less interested in being part of the EU. U.S. rates rallied in a flight to quality bid to 2.78% on 10yr U.S. Government bonds. Flight to quality is also referred to as a Risk-Off trade — the idea being that in times of uncertainty the assets of choice are high quality debt tied to stable currencies.

Municipal Bonds underperformed as the bids to buy was not at the same pace as that of U.S. Government debt. The Municipal market demand was most pronounced for California debt.

Finally Italy's coalition government was sworn in and Spain's Prime Minister was toppled in a no-confidence vote. And traders ate their ant-acid/Tums and went back to business as usual. The volatile rate environment reversed over the course of the week, ending with Friday's surprising May Non-Farm Payrolls data release by the Bureau of Labor and Statistics (BLS). The unemployment rate dipped to 3.8% and wage growth surpassed expectations with average hourly earnings rose 0.3%.

The stronger employment data have traders feeling more confident that the Fed will raise rates at the next meeting in June.

Overall, there was lots of volatility but rates ended up near where we started the week at 2.90%.

This week will be a larger than average (~\$5bn per week YTD) Municipal new issue supply week with an expected \$10bn of Muni New Issues. The State of Connecticut's \$500 Million deal pricing will get most of the attention as the State's fiscal issues and pension obligation is on most market participants radar.

Neighborly Insights

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