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Black Friday Finds Municipal Market Offering Very Few Bargains.

Looking for a Black Friday bargain? You won't find it in the municipal-bond market.

Benchmark 10-year munis yield about 2.1 percent, close to the lowest in a month and down from 2.22 percent two weeks ago, data compiled by Bloomberg show. The rally has kept yields below those on similar-maturity Treasuries for 22 straight trading days, the longest stretch since November 2014.

With prices in the \$3.7 trillion market climbing, "things become more foreboding for December" as the Federal Reserve decides mid-month whether to raise interest rates for the first time in almost a decade, Matt Fabian and Lisa Washburn at Municipal Market Analytics wrote in a report this week. Munis are "rich and likely primed to coast into month-end, assuming little turbulence from Treasuries," they said.

Investors use the yield ratios of AAA munis to U.S. Treasuries to gauge relative value between the two assets, both of which are assumed to be close to risk-free. Historically the figure remained below 100 percent because state and local debt offers tax-exempt interest. For the highest earners, it would take a 10-year Treasury yield of 3.7 percent to match the equivalent tax-free rate from top-rated munis. It hasn't been that high since February 2011.

Contrary to the historical trend, the ratio has averaged above 100 percent over the last five years as investors worldwide plowed into Treasuries because they offered higher yields than some other sovereign debt. That depressed yields relative to municipal securities, which don't typically benefit from demand outside the U.S.

Taxable Equivalent

That's what makes this four-week stretch unusual. The 10-year AAA muni index yield of 2.1 percent compares with 2.21 percent for Treasuries due in a decade. The ratio, at 95 percent, is down from as high as 110 percent in August.

Similarly, benchmark 30-year munis yield 107 percent of those on similar maturity Treasuries, down from as high as 122 percent in April. The ratio touched 102 percent on Nov. 10, the lowest this year, Bloomberg data show.

Across all maturities, munis appear too expensive, wrote Fabian, a partner at Concord, Massachusetts-based MMA, and Washburn, a managing director. "Investors should either solicit incremental spread or be prepared for the likelihood of near-term losses."

Munis have outperformed in 2015 relative to other fixed-income assets. They've returned 2.7 percent this year, compared with 0.9 percent for Treasuries and 0.2 percent for investment-grade corporate bonds, Bank of America Merrill Lynch data show.

Historical Comparison

Fixed-income assets have fluctuated this year as investors watch for when the Fed will raise interest rates from near-zero, where they've been since the worst of the credit-market crisis in late 2008.

The market implied probability of a Fed move in its Dec. 15-16 meetings is 74 percent, close to the highest since August, based on the assumption that the effective fed funds rate will average 0.375 percent after liftoff, compared with the current range of zero to 0.25 percent.

Munis gained 5.5 percent in 2004, when the Fed last began raising rates, compared with 3.5 percent for Treasuries, Bank of America data show. It was a volatile year, with state and local debt losing 3.2 percent in the second quarter, the steepest three-month decline since 1994. Treasuries dropped 3.1 percent.

When the Fed looked prime to raise rates in mid-September, benchmark muni yields rose 0.1 percentage point over three weeks on bets the central bank would act.

If history repeats itself, muni-bond buyers may find better bargains if they skip Black Friday and make purchases with the last-minute holiday shoppers.

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