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U.S.-Based Municipal Funds Absorb Cash for 52nd Straight Week: ICI

Investors piled into U.S. municipal bond funds for the 52nd straight week, a milestone for debt funds seen as an acceptable compromise between risk and reward as trillions of dollars' worth of bonds now yield less than zero.

Muni funds took in $1.1 billion in the week through Sept. 28, the Washington-based trade group said on Wednesday. Earlier data showed muni funds took in $63 billion in the 11 months through August.

"They look pretty robust relative to the rest of the world," said Chad Rach, a portfolio manager at Capital Group in Los Angeles, which manages American Funds. There are $10.9 trillion of negative-yielding government bonds, according to Fitch Ratings data as of Sept. 12.

Overall, ICI said U.S.-based bond funds took in $7.8 billion for the week, continuing a rotation from stocks to bond funds that has lasted the better part of the year.

Rach said that while muni bonds have some risk of issuers not repaying their debts, they lack the exposure to energy markets that have haunted high-yield bonds and other areas of the market. He expects flows to remain strong but said rising rates are a major risk for the bonds.

"It's a risk that we're very focused on," he said.

U.S.-based world stock funds posted $3.7 billion in outflows, their worst week since fears about China's economy stoked a global selloff in the week through Aug. 26, 2015. But that week's $8.3 billion outflow was far higher.

Strong demand for domestic stock funds pushed overall stock fund flows positive for the week as they took in $4.2 billion, according to ICI.

Reuters

By Trevor Hunnicutt

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