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After Postelection Rout, Money Moves Back to Muni Bond Funds.

Flows into munis serve as a gauge of investor expectations for tax reforms

Investors' hopes for a quick enactment of the Trump administration's pro-growth policies continue to wane.

Money is rushing back into municipal bonds. Some $1.6 billion moved into mutual and exchange-traded funds that own muni bonds in the week ended April 12, according to Bank of America Merrill Lynch and EPFR Global. It was the third-largest weekly influx on record and the largest in more than four years.

Flows into munis have served since the election as a gauge of investor expectations for tax reforms because interest payments from these bonds, often backed by revenues of states, cities and other services, are typically free from federal taxes.

Investors dumped muni bonds in the wake of November elections that handed Republicans control of the White House and Congress as anticipation for a tax overhaul and spending on highways and other big projects under the Trump administration soared. Lower personal tax rates could lessen the after-tax yield advantages that muni bonds have relative to Treasuries, or other types of taxable bonds. Additionally, a new supply of tax-exempt bonds to finance spending on infrastructure projects could saturate the market, some analysts said. Some $3 billion rushed out of muni bond funds in the week after the U.S. elections, the most in more than three years.

But as uncertainty about the White House's pro-growth policies has increased this year, money has moved back into muni bonds. To Michael Hartnett, chief investment strategist at Bank of America Merrill Lynch, the recent rush into municipal bond funds "hints at acceptance U.S. tax reform will be far more modest than initially advertised."

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