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Muni Market to Benefit from 'Cash Blast' this Summer.

Demand for munis is rising while supply is set to shrink dramatically starting in June.

There are two big reasons why the muni market is likely to see a flood of new cash this summer, which should lift prices.

First, supply of new munis issued is expected to fall while munis mature at record levels. Peter Block of Ramirez & Co. wrote May 30:

> There is an acute supply-demand imbalance in the Muni market in June, which should help the Muni market outperform over the next few months. We estimate that in June alone, about $86 bil. will be available for reinvestment, including June 1 redemptions of $32 bil. and coupon of $54 bil. against the current 30 day visible supply of only $11 bil. New York (-$5.81 bil.), New Jersey (-$2.41 bil.), and California (-$2.37 bil.) will experience the greatest deficits, followed by Florida (-$1.75 bil.), and Georgia (-$1.24 bil.). We reaffirm our long-term new issue gross supply forecast for 2017 at $368 bil., for a decline of about $60 bil., or -14% YoY, which incorporates $204 bil. of new money bonds and $164 bil. of refundings.

Also, investors who fled munis, wary of the "Trump effect," are now coming back, writes Jim Colby, muni portfolio manager for municipal bond exchange-traded funds at VanEck in a Tuesday blog post. That means more demand.

He reports that as of May 23, the 37 municipal bond ETFs had, year-to-date, had collected $1.6 billion in net new assets. They now have $26.0 billion in assets, compared to $21 billion a year ago.

As individual munis become harder to find, Colby believes ETFs make more sense. He writes:

> On the one hand, for those for whom reinvesting (perhaps in individual bonds) in a potentially tighter muni market may pose unwanted challenges, a muni ETF can provide efficient and effective asset class exposure. They also offer the added advantages of both professional stewardship and, equally as important, diversification.

The biggest muni ETF is the iShares S&P National AMT-Free Municipal Bond Fund (MUB), which is approaching $111, after a nice run-up since mid-March. VanEck has a suite of muni ETFs that allow investors to target specific maturity ranges.

Barron's

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