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Muni Market Goes on Hot Streak Even as All Signs Suggest Selloff.

As municipal bond issuers stampede to borrow before Congress enacts sweeping changes to the $3.8 trillion market, investors are stampeding right back at them.

Yields on 30-year municipal bonds fell for a fourth straight day to the lowest level of 2017. It's a shock to investors who have been bracing for a supply glut that has pushed the volume of planned issuance in the coming weeks to almost $28 billion.

"I'm trying to wrap my head around it," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $6.5 billion of municipal bonds. "Stuff's running pretty hot right now."

Yields on top-rated 30-year municipal bonds fell on Tuesday by about seven basis points to 2.67 percent, the lowest since November 2016. Issuers that benefited from the demand include New York, Texas's Harris County and a newly created corporation in Chicago.

Dalton said one possible reason for the rally was that investors are anticipating a big drop off in issuance in the first quarter of 2018, given how states and local governments are pulling deals forward before year-end. Muni yields have declined in each December over the past three years.

The House tax-cut plan would end the tax break for interest on private activity bonds sold by nonprofits, hospitals and private colleges. The House and Senate bills would also end a debt refinancing tool called advance refundings that states and cities use to save money.

"I'm shocked at how well the market has absorbed this supply so far," said Nicholos Venditti who oversees $11.5 billion of munis at Thornburg Investment Management in Santa Fe, New Mexico.

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