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[The Muni Market Hasn't Rallied This Much Since the U.S. Was Downgraded.]

- **Prices gain, despite flood of borrowing to beat Congress**
- **'I'm buying as many bonds as I can,' says Deutsche's Pollack**

In the municipal-bond market, investors are buying now while supplies last.

As municipalities rush to sell tens billions of dollars of securities before Congress enacts legislation that would dramatically cut the size of the tax-exempt bond market after this year, prices are rallying, sending the yields on benchmark ten-year debt down by the most since S&P downgraded the U.S. in August of 2011. On Wednesday, those yields dropped 0.09 percentage point to 1.95 percent, according to data compiled by Bloomberg.

That's defying the initial expectations of analysts and investors that a potentially record-setting borrowing wave would depress prices through the end of the year. But such short-term considerations have been overridden by the prospect that new sales of tax-exempt debt could fall by a third or more starting next year, which would made the securities more valuable to investors.

"There's a fear that there's going to be a scarcity of municipal bonds going forward," said Gary Pollack, a managing director who handles fixed-income research and trading for Deutsche Bank AG's private wealth division in New York, which holds about $6.5 billion of state and local debt. "I'm buying as many bonds as I can."

The tax-cut bills that were passed by the House and the Senate would strip the tax-exemption from bonds in so-called advance refundings, a technique that governments used to refinance tens of billions of dollars in debt last year alone. The House version would also prevent hospitals, airports and other private borrowers from raising money in the tax-exempt market. The two bills are now in the process of being reconciled.

The changes have led state and local governments to move swiftly to sell debt by the end of the year, putting the market on track to approach or eclipse the monthly record of $54.7 billion in 1985. By late November, borrowers had already scheduled $29.4 billion of sales over the next month, the most since 2005. That captured only a portion of the supply, since many sales are set with less than a 30-day notice.

So far, there's been plenty of demand. "It's a grab fest," said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago.

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— *With assistance by Martin Z Braun*