
America’s Cities Are Exporting Bonds.

- **Foreign investors have increased holdings steadily since 2012**
- **It may provide lift for taxable debt, Citigroup’s Rai says**

America’s states and cities have hit on a popular export product: their bonds.

Foreign buyers have expanded their investments in U.S. municipal securities every quarter for more than five years as low — or even negative — interest rates prod European and Japanese investors to hunt for higher yields than can be found in their home countries. That continued during the last three months of 2017, when they boosted their holdings by a record $4.5 billion to $104.6 billion, according to Federal Reserve Board statistics.

The steady buying is a welcome development for the $3.9 trillion municipal market, where demand from banks and some insurance companies may be curbed by the corporate tax cuts that took effect in January. This year, municipal bond prices have slid amid concern about rising interest rates, pushing up yields on top-rated 30-year debt by about half a percentage point to 3.12 percent, the highest in a year.

The overall impact from the overseas spending spree may be limited. Such buyers tend to focus on taxable bonds, which pay higher yields than traditional municipal securities. Tax-exempt municipals aren’t as attractive, given that they have no use for the income-tax breaks typical state and local bonds provide.

“Foreign investor demand will drive the richening of taxable munis, but it provides no safety net for tax-exempts,” said Vikram Rai, a municipal-bond analyst for Citigroup Inc., the second-biggest underwriter of the securities. “That’s not where they choose to invest.”

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Amanda Albright

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— With assistance by Zachary Hansen