Municipal-Bond Yields Hit Four-Year High as Cash Leaves Market.

- **Ten-year benchmark bonds jumped to 2.6 percent on Tuesday**
- **That's the highest the yield has been since February 2014**

A two-week slide in the price of state and local government securities has pushed yields to a more than four-year high as investors pull money from municipal bond funds and the flood of debt payments that boosted demand over the summer recedes.

The yield on 10-year benchmark bonds jumped to more than 2.6 percent Tuesday, the highest since February 2014. The securities have slid along with Treasuries after a slew of strong economic data reinforced speculation that the Federal Reserve will raise interest rates twice more this year.

"I would suggest that the Treasury market is leading the muni market at this point, slowly grinding higher as the Treasury market makes it difficult for the muni market to stabilize," said Michael Pietronico, chief executive officer of Miller Tabak Asset Management, which manages $1.1 billion of municipal debt in New York.

Mikhail Foux, head of municipal strategy at Barclays Plc, said that while the Treasury movement is probably the biggest driver of municipal yields right now, the anticipated uptick in new bond sales through the end of the year is figuring in as well. The supply-demand mismatch that led to positive returns recently is waning as the new debt issues are expected to outpace the amount of money investors receive from interest payments and bonds that are being paid off.

"A main reason for muni underperformance is that technicals are not as strong as they were," Foux said.

Buyers of state and local bonds are showing signs of caution, Foux said, with investors pulling money out of municipal mutual funds for the last two weeks. Such outflows typically occur when rising interest rates threaten the value of outstanding bonds, he said.

"It seems like a lot of investors are a little cautious right now and they don't want to put money to work even if they have money," Foux said.

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