
BlackRock Is Bullish on Muni Bonds Heading Into 2019.

- **Shrinking market, Fed pause may boost returns, strategist says**
- **Demand may get a boost from new limit on tax deductions**

The world's biggest asset manager is a big bull on the $3.8 trillion municipal-bond market.

Sean Carney, managing director and head of state and local government debt strategy at BlackRock Inc., said in an interview that he expects the securities to return as much as 4 or 5 percent in 2019 if the Federal Reserve moves closer to pausing on interest-rate hikes. That compares with a 0.7 percent return this year, when rising rates weighed on bond prices, according to Bloomberg Barclays indexes.

If Fed policy makers next week tweak their outlooks such that their median estimate is for two hikes in 2019, rather than the three they currently project — a scenario Carney sees as a "strong likelihood" — it will also help support returns, he said.

"Fixed-income returns have the potential to both reap the benefit of price return and coupon return," he said. "Or, if price return is flat, you receive all the coupon return. We could have returns, in a good environment, of 4 to 5 percent."

BlackRock is joining other firms that are forecasting that municipal-bond performance will improve next year. Oppenheimer & Co. said it expects state and local debt to deliver "modest" returns in the single digits in 2019, while JPMorgan Chase & Co. is predicting average total returns of 2 percent.

Carney said the municipal market will benefit from other factors, such as increased demand from investors looking for tax havens after they see the impact of the new limit on the state and local tax deductions. And more bonds may be paid off — either because they mature or are called back early — than are sold next year, he said.

"You have an environment where your market is shrinking," he said. "That's a strong technical and it should help aid performance in 2019."

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