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Wall Street Muni Analysts Say Best of 2019 Is Already Behind Us.

- **Market largely seen steadying after best start since 2014**
- **No dramatic shifts seen, with yields seen holding low**

An unbroken flow of cash into the municipal-bond market since early January has driven the securities to a 5.1 percent return, the best start to a year since 2014, according to Bloomberg Barclays indexes.

At the same time, the pace of new debt sales have yet to fully rebound from the steep slowdown of 2018, rising some 6 percent to about $164 billion. The mismatch between supply and demand helped push prices to record highs relative to Treasuries until last month, when the less volatile state and local government bonds lagged amid the rally set off by speculation that the Federal Reserve will cut interest rates.

Wall Street municipal-debt analysts foresee few dramatic shifts in the next six months, largely anticipating that most of the market's gains have already been reaped.

- Mikhail Foux, Barclays Plc: Says new debt sales may fall short of his initial target of $370-380 billion. Expects yields to end the year lower than they are now. But he doesn't anticipate that munis will gain as much as Treasuries and expects that the ratio of muni yields to Treasuries — a key measure of relative value — will rise. That would indicate the tax-exempt securities have gotten cheaper in comparison.
- Peter Block, Ramirez & Co: Expects a modest pickup in debt sales, with an additional $170-180 billion during the rest of the year. He said it's a "reasonable assumption" that mutual funds will continue to pull in cash, barring some dramatic change to the outlook for interest rates or the economy.
- Ian Rogow, Yingchen Li, Bank of America Corp.: Predict that muni prices will get more expensive, relative to Treasuries, pushing down yield ratios. New debt sales are on pace to fall short of their $365 billion annual target for 2019, despite an expected pickup in the next six months.
- Alan Schankel, Janney Montgomery Scott: Foresees only about $320 billion of debt sales this year, far short of his original expectations. Total returns should end year "somewhere in the neighborhood of 6%," largely because of coupon payments, not price appreciation, as benchmark yields hover around current levels. Expects 10-year yields to end the year at around 80% of Treasuries, roughly where they are currently.
- Chris Mier, Loop Capital Markets: Anticipates returns of "something like 6-8%" for the year and sales of $340 billion. He expects inflows to continue but says the rate may slow slightly, and envisions yields will end 2019 close to 75% of Treasuries. "I don't think we'll revisit the lows or set a new low for ratios, but we are likely to improve from where we are," Mier said.
- Patrick Luby, CreditSights: Expects positive returns in the second half, but said any specific target "would be too long of a guess." He said benchmarks yields could go lower, but not by a lot, and he wouldn't be surprised if muni prices richen from current valuations. Expects new sales to be in the lower end of his original forecast of $365-390 billion for the year.

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