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The Municipal-Bond Market Is Now Controlled by Just a Few Firms.

Concentration benefits firms like Nuveen and Vanguard, as well as some investors, but critics see risks if the market cools

A few behemoths are increasingly dominating the municipal market, helping to lower prices for many investors but also sparking worries about concentration and influence.

There has been a mammoth shift in the \$4 trillion muni market over the past decade as investors have increasingly used professional money managers to invest in both high- and low-grade state and local government debt. Mutual-fund holdings of municipal bonds now total \$738.6 billion, according to Federal Reserve data, a more than 50% increase since 2009.

This shift has been particularly beneficial to firms like Nuveen LLC and Vanguard Group. Since 2010, more than one in three new dollars going to muni funds classified as high yield has gone to Nuveen, according to an analysis of Morningstar Direct data through June. Over that time, almost a third of new money going to all muni funds has gone to Vanguard.

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By Heather Gillers and Gunjan Banerji

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