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The Record High Price of Some Muni Bonds Erases the Tax Breaks.

- **One-year Treasuries have better after-tax yield, firm says**
- **Those muni yields last week hit new low against Treasuries**

Investors who are paying near record-high prices for the shortest-dated state and local government bonds may think the tax break makes it worthwhile.

It doesn't.

U.S. Treasuries that mature in one year are providing bigger after-tax yields than traditional municipal debt, AllianceBernstein Holding LP said in its weekly note. That's because the price run up pushed the yields on one-year tax exempt debt to about 0.91% by Friday's close, or about 55% of those on Treasuries.

Steep drop in yields wipes out tax advantage of municipal bonds

That measure of relative value is only slightly above what it was earlier last week, when it hit the the lowest since at least 2001, according to data compiled by Bloomberg. The lower the ratio drops, the more pricey the municipal securities are in comparison.

The mutual-fund company said it's very unusual for the tax advantage of state and local government debt to be non-existent, and it suggested that investors shift some of their cash into short-term Treasuries instead. They said the federal government securities also provide a "modest amount" of recession insurance because that have historically outperformed during economic contractions.

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