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Bond Buyers Hit by Negative Yields Around the Globe Flock to U.S. Muni Debt.

- **Taxable bond boom drawing increased interest from overseas**
- **Foreign holdings hit record high as U.S. yields stay higher**

Jeffrey Burger, a money manager at Mellon Investments Corp., in September swung through Zurich, where government bonds are yielding less than nothing, to pitch his U.S. municipal debt funds to investors hunting in unfamiliar places for positive returns.

So he brought up one of Switzerland's most famous men, the professional tennis player Roger Federer, who competed in the U.S. Open in New York's Arthur Ashe Stadium, a venue financed with the types of securities Burger's funds buy.

"Even though he lost, what can give you some joy, is that he did it in a U.S. muni-funded stadium," said Burger, who held meetings with investors in London, Paris and Milan. "And if you go four kilometers to the north, guess what you run into? LaGuardia Airport, another example."

The unprecedented era of negative interest rates in Europe and Asia is turning some of America's most domestic securities into a valuable export. Even with interest rates holding near a more than half-century low, the returns promised by the \$3.8 trillion municipal-bond market look good compared with the \$13 billion of sovereign debt that it winds up costing investors to own.

Foreign buyers have been a steadily growing presence in the U.S. municipal market, doubling their direct holdings over the past decade to a record \$102 billion by the end of June, according to Federal Reserve Board data. But the interest has been given an added jolt in recent months because of a torrent of refinancing by states and cities, who have seen rates fall so much that they are selling taxable debt — which carries higher yields — to refinance tax-exempt securities. Overseas buyers are primarily interested in taxable bonds because they have no need for the U.S. income-tax shelter typical municipal securities provide.

U.S. governments have sold about \$48 billion of taxable bonds this year, an 119% increase from the same period in 2018 and the most in almost a decade, according to data compiled by Bloomberg. Such debt has delivered a 10.5% return this year, according to the Bloomberg Barclays index.

"This supply really helps to get focus and attract the broadest possible investor base," said Patrick Brett, head of municipal capital markets at Citigroup Inc., which has a municipal-bond banker stationed in London. "We've had quite a bit of interest from overseas for these issues."

The influx of foreign cash is similar to what happened in the wake of the recession, when President Barack Obama's recovery program covered part of the interest bills on Build America Bonds that were issued to finance public works projects intended to jump-start the economy. They were structured as taxable securities to expand the market for the bonds beyond traditional buyers of municipal debt.

International investors are buying municipal securities both directly and through mutual funds like those run by Mellon's Burger. MFS Investment Management offers a fund to institutional investors in Europe and Asia that is registered in Luxembourg, for example. Its top holdings include debt issued by Illinois, Denver's water system and New York City.

Lori Cohane, a portfolio manager at Credit Suisse Asset Management, said such big, well-known issuers have benefited from the global interest.

"If the state of Texas issues taxable municipal bonds, global buyers are going to know the state of Texas. Or if Harvard University issues taxable municipal bonds there's a familiarity there," Cohane said.

The Dallas Fort Worth International Airport is one that's tapped into the trend. The largest airport in Texas sold \$1.2 billion in taxable bonds in August that were specifically marketed to international buyers. Christopher Poinatte, the chief financial officer for the airport, traveled to London, Paris, Seoul, Hong Kong and Taipei ten months before the sale to educate potential investors about his airport and the mechanics of the U.S. industry.

"We understand that international investors are very interested in U.S. infrastructure," he said. "There's an entirely untapped market out there."

Poinatte said the sale received \$465 million in direct international orders from buyers in London, Norway, Tokyo and Taipei, with about 15% of the total deal eventually allocated to foreign accounts. The airport plans to sell another billion in taxable bonds next summer and Poinatte is planning another trip — both to the places he visited previously and to new cities in Italy and Norway.

"There are tens and hundreds of billions of dollars in international money that is very anxious to invest in infrastructure," he said. "We are playing the long game. We are trying to tap that market."

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— *With assistance by Chikafumi Hodo*