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## A Massive Gap Explains Why Muni Prices Are Testing Record Highs.

- **Debt payments, mutual fund inflows outpace new debt sales**
- **'Everybody is just piling money into the muni market'**

Over the next month, about \$25 billion of municipal debt will be paid off. Bondholders will receive another \$13 billion of interest payments in February. And mutual funds have pulled in nearly \$7 billion of new cash already this month.

Yet over the next four weeks, only a fraction of that money may find new securities to buy: American states and cities are so far set to sell just \$13 billion of bonds in that time, according to data compiled by Bloomberg.

That yawning gap between the amount of cash looking to be reinvested and the amount of new securities being sold is driving the municipal market to new heights. Yields are at the lowest since the 1950s, 30-year munis are hovering around their highest values against Treasuries since at least 2001, and this month's 1.2% return marks the strongest start to a year since 2016.

"There is a mismatch between supply and demand," Matt Fabian, a partner at Municipal Market Analytics, said in a telephone interview on Wednesday. "Part of it is the continued trend of exceptional demand from last year."

Yields holding near lowest against Treasuries since at least 2001

The demand for tax-exempt debt has been fueled in part by President Donald Trump's 2017 tax law that capped state and local deductions, leaving investors in high-tax states looking for other ways to drive down what they owe. That's caused a steady influx of cash into municipal-bond mutual funds, which have gained money each week since last January.

At the same time, interest rates have fallen so low that governments can even sell taxable bonds to refinance their debts, contributing to a relative dearth of new tax-exempt securities.

So far, state and local governments have issued about \$18.4 billion of new long-term bonds in January, the slowest start to a year since 2014, according to data compiled by Bloomberg. Some \$5.7 billion were taxable.

"Everybody is just piling money into the muni market and there is only so much supply," said Jeffery Timlin, a managing director at Sage Advisory Services, an investment firm.

While the amount of debt in the pipeline will continue to increase, since many deals are scheduled with less than a month's notice, analysts don't see a pullback from the market on the horizon.

"We do not have reason to believe that the current trend of fund inflows will reverse any time soon," Wells Fargo Securities senior analysts Randy Gerardes and George Huang said in a report on Tuesday. "So, absent a significant build in the February calendar, we think the technicals will

remain accommodative for a continued muni rally.”

## **Bloomberg Markets**

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