

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

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## **How To Profit From The Currently Insatiable Demand For Municipal Bonds.**

Cash coming back to investors from municipal bond coupons and maturities in June, July and August will far outstrip new issues. The municipal bond market is more sensitive to changes in supply and demand than any other sector of the bond market. This will be the summer of municipal bond imbalances.

Every week there's a relentless surge of money going into municipal bond funds of all types. Lipper Fund Flow says 2021 has ran the biggest influx of new money in municipal bond funds since 2000. The numbers as reported by Bloomberg for redemptions and calls look like this:

- \$40.5 billion munis maturing in June
- \$34.9 billion in July
- \$43.9 billion in August
- Perhaps another \$10 billion in bond calls in each of these three months.

This creates a good selling opportunity for those who need to raise cash. On the other hand, it isn't so good for buyers. Buyers should not jump into the feeding frenzy. Patience and easing into the municipal bond market makes much more sense as new issue volume ramps up in the Fall.

I recognize how counter intuitive this may seem, considering the historically low bond yields we've experienced since 2020. But factor in potentially higher tax rates and the municipal bond buying frenzy makes sense.

Investors don't like paying increased federal tax. But that's where we are heading. Washington wants to boost top personal tax rates to 39.6%. Glom on to that state income tax from the greediest states like California, Hawaii, New York, New Jersey, Oregon and Minnesota that fall between 9.85% and 13.30% for the highest earners. What you've got is a rush to munis to lessen the tax burden.

With \$28.2 trillion in existing Treasury debt, continuing Federal Reserve debt purchases, and inflation, some may think investing in munis is a death wish. Not at all.

The Federal Reserve has, and will continue to, monetize our debt. They will keep rates low in order to manage the cost of government borrowing. The Fed controls interest rates. All this as individual and corporate tax rates increase.

Once the media gurus touted REITs and dividend paying stocks as the "new bonds." That is, until many companies reduced or omitted their dividends. This happened to companies like AT&T T +0.1%, Disney DIS +0.5%, Southwest Airlines LUV +0.5%, Halliburton HAL +0.1%, Royal Dutch Shell, Harley Davidson HOG -1.9%, and Expedia, to name just a few. Municipal issuers don't have that luxury. Skipping a municipal bond coupon means the issuer is bankrupt—a rare occurrence

indeed. So *viva le difference*. Stocks are here to increase wealth. Municipal bonds exist to preserve wealth.

The drum beat you hear is the government relentlessly marching toward higher tax rates. Be a tax-smart investor and take heed.

**Forbes**

by Marilyn Cohen

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