Bond Case Briefs

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Over $60 Billion Flowed Into Municipal Bond Funds in 2021.

Infrastructure focus and investors looking to curb higher taxes have helped municipal bonds see over $60 billion in fund flows during 2021.

Municipal bonds offer a way for investors to help stymie the effects of higher taxes. That's certainly the case heading into 2022 after the trillion-dollar infrastructure package got signed into law by President Biden.

"Investors have poured more money into municipal bond funds so far this year than they have in decades, providing the fuel for borrowing by states and cities to fund new bridges, sewers and other state and local projects to a second-straight 10-year high," Wall Street Journal reports.

That influx of funds is translating into municipal bonds capturing a larger share of the debt market. Investor habits are also changing with more investors looking to hold munis temporarily as opposed to holding for the long-term horizon.

"Municipal bond funds now hold an unprecedented 24% of outstanding debt compared with 16% five years ago, according to Federal Reserve data," WSJ adds further. "The move marks the latest step in a fundamental shift away from a buy-and-hold market where individual investors quietly collect interest year after year."

Additionally, the fundamentals of supply and demand are also affecting the municipal bond market. More demand for munis is happening at a time when supply is slow, pushing bond prices higher as investors swap yield for the quality that munis can offer.

"Generally there's a better credit environment, you have lower supply [and] more demand, and then you just have investors who are willing to take on more risk to replace the yield that they previously got on their high-grade bonds," said Eric Friedland, director of municipal-bond research at asset manager Lord Abbett.

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