Muni Bonds Reach Cheapest Level Since 2020 as Citigroup Says It's Time to Buy.

- **Citigroup strategists say munis 'past the point of peak pain'**
- **'Ratios look pretty good,' says Breckinridge's Pease**

It's been a bleak stretch in the $4 trillion municipal-bond market, with returns slumping, retail investors dumping bonds and volatility giving issuers pause. But some portfolio managers are jumping into the fray.

They're dipping into cash piles with munis brushing up against their cheapest levels since 2020 relative to Treasuries, which are outperforming amid haven demand fueled by the war in Ukraine. While both markets are down in 2022 ahead of an expected Federal Reserve rate hike this month, the losses in munis are steeper.

Citigroup Inc. strategists said in a note Monday that the muni market is "past the point of peak pain" and recommended buying. They noted that the Fed has backed off its hawkish stance given the Ukraine conflict, the sort of crisis that tends to bolster muni performance. Traders still expect a quarter-point Fed rate increase next week amid elevated inflation, having stepped back from bets on a half-point boost.

"This is a good, opportunistic time for people to engage in the market and be able to pick up yield, something we haven't seen since March 2020," said Evgenia Lando, a portfolio manager for Thornburg Investment Management. Last year, before the market selloff, Lando built up cash given what she saw as a lack of buying opportunities, with credit spreads staying tight.

Lando said she put in orders for a bond offering last week from the Lower Colorado River Authority. The agency sold about $343 million of debt, including a 2032 maturity that priced to yield 2.02%, while a 10-year segment it sold a year earlier priced to yield 0.96%. Spreads were wider on the latest sale than a year ago.

Kevin Danckwerth, head of muni trading at Citigroup, said the cash cushion that mutual funds built up before the selloff means they can be both buyers and sellers in the current environment.

'Both Sides'

Last year, municipal funds attracted more than $96 billion of cash, while outflows this year have totaled $12.1 billion through March 3, according to Refinitiv Lipper data.

"Most mutual funds are on both sides of the trade right now," Danckwerth said. "They came into the year in a good position from a cash perspective."

Customer buying averaged about $6.1 billion daily from Jan. 21 through March 4, while selling averaged $4 billion, according to statistics from the Municipal Securities Rulemaking Board.

It may be a sign that retail buyers are also tempted by the higher yields, even as munis enter what is often a rough stretch because of selling related to tax payments before the mid-April U.S. filing deadline.

“Ratios look pretty good considering where we’ve been,” said Ben Pease, head of muni trading at Breckinridge Capital Advisors, who said his team was comfortable adding exposure to municipals. “There were people tripping over themselves a year ago for significantly worse ratios and significantly worse yields.”

Barclays Plc said a muni-Treasury ratio of 90% may cause some investors to begin dipping their toes in. But they noted the challenges of doing so amid volatile markets.

“This year, investors are faced with some of the hardest market conditions in recent history, as muni-Treasury ratios keep oscillating, and rate volatility is never conducive to risk-taking,” strategists led by Mikhail Foux said in a March 4 note. “The belly of the curve has adjusted enough that it is starting to get interesting versus Treasuries.”

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