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Citigroup Sees Muni Revival With Investors Poised to Get Cash Bonanza.

- **May reinvestment cash expected to exceed new debt sales**
- **Sees shift giving 'significant uptick in technical support'**

The municipal-bond market, pummeled by a swift rise in interest rates and a near-record investor exodus from mutual funds, appears poised to get a little bit of support next month.

Citigroup Inc. strategist Jack Muller estimates that the amount of cash state and local government bondholders will receive from principal and interest payments in May will exceed the volume of new debt sales by about \$9.5 billion. Since investors typically reinvest those payments, that will likely lift demand for bonds.

The surfeit of cash marks a shift from the past two months, when the pace of new debt sales exceeded the amount investors received just as markets were hit by selloffs ahead of the Federal Reserve's first interest-rate hike. That could ease the pressure on a market that's been hit by a nearly 9% loss this year as yields surged and investors pulled out.

"May is expected to bring a significant uptick in technical support, after two months of negative cashflow," Muller wrote.

The rout drove benchmark 10-year tax-exempt bond yields to 2.66% by Tuesday, nearly as much as those on Treasuries, which aren't tax-free. That measure of relative value indicated that the municipal bond prices were at their cheapest since November 2020, since tax-free yields usually hold well below those on Treasuries.

Yet it's no sure thing that individual investors will be keen to plow money back into the market. Jonathan Kahn, an individual investor who lives in New York, said he's holding off reinvesting interest coming due next month because he thinks rates could move higher.

Citigroup estimates that municipalities will sell about \$35.5 billion of new debt in May, while investors will receive some \$45 billion from maturing bonds, coupon payments and securities that will be paid off early.

The uptick in technical support comes after demand for all bonds, including munis, has plummeted on expectations that the Fed will carry out an aggressive campaign of monetary policy tightening to combat the highest inflation in decades. Investors have yanked about \$40 billion from municipal-bond mutual funds this year.

March and April are typically the weakest months for muni fund inflows because investors tend to unload some holdings to pay tax bills ahead of the mid-April U.S. filing deadline. Historically, principal and interest payments to bondholders are also lighter.

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