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## Vanguard's Malloy Says Crossover Buyers Are Key to Muni Recovery.

- **Muni market on track for worst performance in decades**
- **Banks, insurance companies helped drive rally in spring 2022**

Paul Malloy, who oversees roughly $211 billion of municipals at the Vanguard Group Inc., says conditions are ripe for a recovery from this year's steep muni selloff.

Buyers known as "crossover investors" that usually acquire taxable securities could jump in to take advantage of cheap valuations, once again aiding in the securities' recovery, Malloy said. The muni market has tumbled 12% year-to-date, and if that drop holds it would be the worst performance since at least the 1980s, according to Bloomberg indexes.

Crossover investors, including banks and insurers, drove a short-lived municipal-bond market rally in late May and early June, and another similar recovery is possible. "They haven't come back in force yet, but they are interested," Malloy said in an interview Tuesday. "All the preconditions are there for a snapback."

Despite the rout, the financial health of municipal-bond issuers remains strong after tax revenue beat expectations and the federal government stepped in with aid after the pandemic.

The ratio of muni yields compared to Treasuries for long-dated securities is above 100%, which Malloy says is "pretty attractive" for investors. The yield on the 30-year AAA benchmark offers about 102% of the yield on similar-dated Treasuries, according to Bloomberg data.

A less volatile Treasury market would embolden crossover buyers to start wading back into the muni market, he said.

Crossover buyers' participation is key as they're often first movers, driving recovery from selloffs while retail investors — the major buying force in the state and local debt market — often follow, according to Malloy, who is based in Malvern, Pennsylvania.

"They'll put a bid to the market, and retail will come in on top of that," he said.

**Bloomberg Markets**

By Amanda Albright

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