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Wall Street's Portfolio-Trade Fad Hooks Illiquid Muni Market.

- Technique made up 10% of June's corporate-bond trading volume
- AllianceBernstein, Vanguard embrace it for liquidity benefits

The boom in portfolio trading is starting to creep into the market for state and local government debt.

The tactic, which allows investors to buy or sell bundles of bonds at once, has become popular in the US corporate bond market over the past six years. Now municipal bond managers are starting to catch on, too.

Portfolio trading holds the promise of injecting more liquidity into the buy-and-hold market, where debt sold by small towns and school districts may not trade for months or even years. That makes it difficult for investors to determine the value of a particular bond and has contributed to higher trading fees — a problem that may be eased if more rarely traded bonds are included in lots sold by portfolio trades.

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