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WSJ: Muni-Bond Buyers Seeking Safety.

Investors in municipal bonds are turning to safer corners of the bond markets in the wake of Detroit's bankruptcy filing.

Three weeks following the city's filing with more than $18 billion in debt—which came after years of economic decline and population exodus—its impact is still being felt.

After at least three Michigan municipalities decided to postpone their bond sales, Detroit and Michigan officials insist the problems should be isolated to the beleaguered city. But the bankruptcy has prompted some investors to move their money into higher-rated segments of the municipal-bond market.

The new premium these investors demand from some debt tied to the state stems in part from their concern about officials' insistence that Detroit bondholders should take losses on some of their debt and potentially agree to changes in terms on other debt.

Investors have yanked about $4.4 billion out of weekly reporting muni mutual funds in the three weeks following Detroit's bankruptcy filing, according to Thomson Reuters unit Lipper FMI. During that same period, investors poured about $3.3 billion into corporate investment-grade funds, according to Lipper.

Detroit is "treating bondholders like the enemy," said Dan Solender, director of municipal-bond management at Lord Abbett, who oversees about $17.5 billion in munis. And given that stance, "it's harder to analyze risk" in the state, he said. He said his firm is being more cautious about investing in debt from Michigan local governments.

Within the muni-bond market, investment-grade debt issued by cities and states has fared much better than lower-rated debt since Detroit's July 18 filing, posting a negative return of 0.847%, according to data from Barclays. That compares with "junk"-rated municipal bonds' return of a negative-1.880% in the same period.

Investment-grade corporate bonds have seen a negative return of 0.143% since Detroit's filing, a better performance than the negative 0.847% return for high-grade munis. Munis rated triple-B, the lowest rung on the investment-grade scale, returned negative-1.864%, Barclays says.

Detroit's bankruptcy filing piled onto declines already under way in the municipal-bond market. Prices fell and yields rose in all bond markets in May and June, when officials at the Federal Reserve started discussing slowing an $85 billion-a-month bond-buying program aimed at stimulating the economy. The selloff meant that higher-quality bonds offered more enticing yields, so municipal-bond investors were already shifting away from lower-rated debt.

But when Detroit filed for bankruptcy, investors in the municipal-bond market became more anxious, in particular, about lower-rated, riskier bonds, as well the security of bonds sold by Michigan localities in general.

Over the past week, a third Michigan municipality postponed an offering, finding investors were demanding more compensation than the issuer wanted to pay. That was Saginaw County, Mich., which Thursday pulled a $60 million bond sale meant to fund the county's pensions. Earlier in the week, Battle Creek, Mich., delayed its bond deal.

Detroit's bankruptcy filing "put a further scare into the marketplace," said Lyle Fitterer, managing director at Wells Capital Management, which oversees about $34 billion in munis. "Why take the risk when you can get the yield in a higher-quality instrument?" he said. "There's definitely some of that going on."

"The trend has absolutely accelerated of late, and Detroit has played some part in that," said Tom Weyl, municipal strategist at Barclays, of lower-rated munis underperforming higher-quality ones.

Burton Mulford, portfolio manager at Eagle Asset Management, said his firm has received a lot of phone calls from concerned high-net-worth clients after Detroit's bankruptcy. He estimated the call volume was about three times the usual amount.

After seeing losses on their muni investments in May and June, "Detroit raised a red flag and brought up more questions," said Mr. Mulford, whose firm oversees about $2 billion in munis. The city's bankruptcy filing "just added more skittishness."

Mr. Mulford said his firm doesn't own any Detroit bonds and is underweight debt from Michigan municipalities in general. "There has been a flight to quality in the muni market," Mr. Mulford said.