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WSJ: Finding Attractive Muni Yields Post-Detroit.

The shock waves of Detroit's bankruptcy are helping to raise municipal-bond yields nationally to levels not seen since early 2011.

The average top-rated 10-year municipal bond was yielding nearly 2.8% entering Wednesday, according to market researcher Municipal Market Data. That amounts to a tax-equivalent payout of slightly less than 5% for the highest income earners, notes Michael Comes, a portfolio manager at Cumberland Advisors in Sarasota, Fla., with $2.2 billion in assets.

A similar-termed taxable Treasury with a triple-A rating has been yielding about 2.7%, he points out. At the same time, Mr. Comes says he can find 10-year investment-grade corporates from highly rated issuers such as Apple Inc. with yields in the 3.5% range. High-grade debt issued by companies, which unlike municipal issues are taxed at the federal level, normally can be expected to offer higher yields since they come with heightened credit risks.

The muni marketplace has been hemorrhaging since early March as concern about higher interest rates and rising expectations that the Federal Reserve will curtail its economic stimulus programs sent fund investors heading for the exits.

Although the financial problems of Detroit were well-documented before last month's bankruptcy filing, net investment flows out of muni-focused mutual funds and exchange-traded funds peaked around $4.5 billion a week immediately following the event, according to Lipper FMI, a Thomson Reuters research group.

Perhaps just as significantly, muni-bond funds produced eight-straight weeks of declining returns through the end of July, says Lipper analyst Jeff Tjornehoj.

"Since about a week after Detroit's bankruptcy, the muni market has stabilized and the bleeding in fund flows has slowed," he says.

By Mr. Tjornehoj's estimates, the typical muni-bond fund has lost around 0.6% in the past six weeks. By contrast, those same funds were down by slightly more than 5% in the two months leading up to the latest crisis.

As the dust settles from Detroit's bankruptcy, investors hungry for better income opportunities are finding the best market conditions in nearly two-and-a-half years, says Alan Schankel, a muni strategist at broker Janney Montgomery Scott.

The last time munis looked so attractive was during a selloff from late 2010 into early 2011 that started after analyst Meredith Whitney predicted that muni markets faced billions of dollars in defaults, Mr. Schankel observes.

"This is a rather unique time. We're finding better after-tax yields in municipals than many types of low-rated investment-grade corporates," Mr. Schankel says.

Munis are also attractive relative to some grades of so-called “junk bonds,” says Anthony Valeri, head of fixed-income research at LPL Financial Holdings Inc., with $350 billion in assets.

The firm’s managers say they are considering putting more money into munis after taking profits in bonds that offer higher yields but come with lower credit ratings.

“The fears about Detroit have created more market uncertainty, something that we think investors can turn to their advantage,” Mr. Valeri says.

Cumberland’s Mr. Comes says he is favoring essential-services bonds that are rated double-A or better from states with relatively low debt levels and attractive demographics such as Utah, Texas, Virginia and Maryland.

In particular, he likes the prospects for a 30-year New Jersey turnpike project paying 4.73% tax-free to investors in the state. Another issue they are monitoring is a water-services bond in San Diego, yielding about 4.2% and due to mature in about 18 years. Also under review is a 25-year general obligation bond from Washington state that is currently paying around 4.5%.

“The havoc created by Detroit’s bankruptcy filing is providing investors with their best entry point into muni bonds since that Meredith Whitney moment more than two years ago,” Mr. Comes says.