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Reuters: U.S. Municipal Bond Funds Report 14th Week of Outflows.

Aug 29 (Reuters) - U.S. municipal bond funds reported net outflows \$1.74 billion in the week ended Aug. 28, lower than the \$2.14 billion of outflows in the previous week, according to data released by Lipper on Thursday.

It was the 14th week in a row of outflows, which kept the four-week moving average negative at \$1.52 billion, said Lipper, a unit of Thomson Reuters.

Fears of interest rate hikes and nervousness about credit risk have led to a mass exodus from municipal bond funds, with outflows reaching a record high of \$4.53 billion at the end of June. Detroit, which filed for the largest U.S. municipal bankruptcy in July, added to investors' concerns.

Investors pulled \$335.79 million out of high-yield funds, compared with \$460.03 million the week before. Exchange-traded funds had net outflows of \$24.79 million, after outflows of \$114.85 million the previous week.

During the same week in August last year, municipal bond funds reported \$602.32 million of net inflows, according to Lipper.

In 2013 so far there have only been 11 weeks of inflows, and the string of consecutive outflows, when combined with credit issues, "have resulted in yields that are significantly cheaper than their corporate bond counterparts," according to S&P Dow Jones Indices. The S&P National AMT-Free Municipal Bond Index, made up of investment-grade municipal bonds, is down 1.68 percent for August and down 5.55 percent for the year to date.

Long-term debt has felt the most strain.

The Vanguard Group's short-term tax-exempt bond fund has posted a year-to-date return of 0.01 percent. In comparison, its long-term tax-exempt fund's return for the year to Aug. 28 is a negative 5.79 percent.

Similarly, PIMCO's fund of investment-grade municipal bonds has had a year-to-date return of a minus 6.99 percent, while its fund focused exclusively on short-term municipal debt has fared better, with a year-to-date return of negative 0.13 percent.

On Thursday, top-rated 10-year bonds on Municipal Market Data's benchmark scale yielded 2.94 percent, and highly rated 30-years yielded 4.45 percent. A year ago, yields were much lower, and prices, which move inversely to yields, higher. Yields on 10-year bonds were 1.75 percent and on 30-year bonds 2.90 percent, according to MMD, a Thomson Reuters company.

Nonetheless, retail interest in buying individual bonds has remained strong. According to BondDesk Group LLC, investors bought five bonds for every two they sold in the week ended Aug. 28, the same as the week before.

