

Bond Case Briefs

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Long-Dated Munis Quietly Outperforming.

The municipal bond market continues to struggle in many ways, but longer-dated muni bonds have quietly put together a bit of a winning streak. In its latest fixed-income strategy report, JP Morgan notes that muni bonds have significantly outperformed taxable bonds from October 22nd through mid-November, with long-dated A-rated tax-exempt bond yields have outperforming corporate bond yields by approximately 26 basis points, while the 30-year high-grade bond outperformed the 30-year U.S. Treasury bond by 25bps during the same period. JPM reflects:

As such, current valuations in the longer portion of the tax-exempt municipal market are close to fair value versus similar corporate bonds and Treasury bonds, when viewed in the context of these relationships over the past six months. It is worth mentioning that the longer the look back period, the more attractive long dated municipal assets appear while municipals look richer in the context of shorter-term comparisons.

JPM says this municipal outperformance has not been broadly reflected in recent fund flows, but it sees better times ahead. "We expect municipals will outperform considerably in 4Q14 given compelling yields on longer dated tax-exempt bonds and mutual funds," JPM writes.