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Long Bonds Gain in Best Month Since '12 With Yields: Bloomberg Muni Credit.

The longest-maturity municipal bonds have gone from market laggards to the best-performing area of local-government debt, a boon to issuers locking in borrowing costs for decades.

Municipal obligations due in 22 or more years have earned 3.6 percent in 2014, beating shorter maturities and surpassing the 2.4 percent gain for the entire \$3.7 trillion market, Bank of America Merrill Lynch data show. January was the best month for the longest-dated debt in two years.

As the Standard & Poor's 500 Index (SPX) extends losses to a fourth straight week while inflation remains subdued, investors have renewed confidence in lending to municipalities for lengthier periods. Issuers last month sold tax-exempt, 30-year bonds to finance a home for sharks at the New York Aquarium, and for a National Football League stadium in Minneapolis.

"For investors that want income, the long end of the market looks a lot more attractive than the shorter end," said Clark Wagner, director of fixed income in New York at First Investors Management Co., which oversees about \$1.5 billion of munis.

The increased demand for longer maturities is a reversal from 2013, when the securities lost 6 percent, the most since 2008, and trailed other market segments, Bank of America data show. Investors are finding value in longer munis when comparing yields with those on Treasuries as well, Wagner said.

Fund Appetite

Last month, mutual funds focusing on longer-dated local-government debt received the most money since September, according to U.S. Lipper Fund Flows data.

The S&P 500 dropped the most since June yesterday after a private report showed U.S. manufacturing slowed more than forecast in January, fueling questions about the strength of the economic recovery. The index of shares set a record high last month.

Meanwhile, the Federal Reserve's preferred inflation gauge has been below the central bank's target since April 2012. Subdued inflation preserves the value of longer-maturity bonds' fixed payments.

"The relative value is much better out long because it performed so poorly last year," said Daniel Solender, who helps oversee \$15 billion of munis at Lord Abbett & Co. in Jersey City, New Jersey.

Extra Yield

Investors receive about 3.5 percentage points of extra yield when buying 30-year benchmark munis rather than those maturing in two years, exceeding the five-year average spread of 3.3 percentage points, Bloomberg data show.

“The short part of the market did well last year,” Solender said. “So there the yields are low and the opportunities are not as great.”

Compared with federal debt, longer-dated munis are the cheapest part of the local-bond market.

Thirty-year bonds yielded 3.9 percent yesterday, close to the lowest since June and compared with 3.53 percent for similar-maturity Treasuries. The ratio of the interest rates, a measure of relative value, was about 110 percent, the highest since November. The greater the figure, the cheaper munis are relative to federal debt.

Shark Home

New York City’s Trust for Cultural Resources on Jan. 31 sold about \$44 million of tax-exempt revenue debt rated three steps below benchmark munis to finance expansion of the aquarium in Coney Island, Brooklyn. More than half the debt matures in 2038 and 2043, Bloomberg data show.

The plans include a new 57,500-square-foot building that will house 40 sharks and other species of fish and invertebrates, according to bond documents.

Minnesota last week sold \$462 million of bonds repaid with annual appropriations from the legislature for a new stadium in Minneapolis for the NFL’s Vikings. The debt is rated two levels below top-rated obligations.

A June 2043 maturity priced to yield 4.12 percent. The tax-exempt bonds have gained since their sale, trading yesterday with an average yield of 3.87 percent, Bloomberg data show.

Signs the economy may be losing momentum have cooled speculation for higher interest rates, Solender said.

Interest rates on 30-year Treasuries will climb to 4.24 percent in the fourth quarter, according to the median forecast of 52 analysts in a Bloomberg survey. In September, the median forecast was for 4.35 percent in the fourth quarter of this year. Bond prices move in the opposite direction of yields.

“The economic numbers have not been as strong as some might have anticipated,” Solender said. “The stock market performed so well last year and is not doing as well this year. All those factors are making some reassess that outlook.”

By Michelle Kaske Feb 3, 2014 5:00 PM PT

To contact the reporter on this story: Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editor responsible for this story: Stephen Merelman at smerelman@bloomberg.net