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High-Yield Drives Biggest U.S. Muni Fund Outflows Since January.

(Reuters) – Investors pulled $790.3 million out of U.S. municipal bond funds – most of it in the high-yield sector – in the week ended July 9, marking the biggest outflows since January, according to data released by Lipper on Thursday.

High-yield funds accounted for more than $691 million of total outflows, likely on concerns about Puerto Rico debt, which carries some of the fattest yields but biggest risk for yield-starved muni investors.

In the previous week, high-yield muni funds had added just $5.7 million of investor money.

Oppenheimer Rochester's High Yield Municipal Fund shed nearly $294 million across all share classes, more than any other individual high-yield muni fund, according to the data from Lipper, a unit of Thomson Reuters. The fund also lost $40.3 million of market value to end the week with $5.13 billion in assets.

Oppenheimer fund managers were not immediately available to comment. But a note on Oppenheimer's website on Wednesday praised Puerto Rico's latest efforts to pay its bills. Just over 11 percent of the fund had direct exposure to Puerto Rico debt, nearly all of it uninsured.

The high-yield muni sector has lost value since late June, after Puerto Rico's legislature passed a law that allows public corporations to restructure their debt. The benchmark Barclays High Yield Municipal Bond Index, up more than 9.5 percent in mid-June, was up less than 5.5 percent as of Wednesday.

The law prompted Moody's Investors Service on July 1 to push its ratings on Puerto Rico's general obligation debt deeper into junk territory, and to cut ratings on $46 billion of debt issued by the island's public corporations.

Fitch Ratings also dropped its rating on Puerto Rico's GO debt on Wednesday. Fitch cut its high-investment grade rating of 'AA-' on $6.7 billion of senior lien Puerto Rico sales tax financing corporation bonds, or COFINA bonds, by nine notches to junk at 'BB-'.

"It is not a big leap to view the legislation as an indication that Puerto Rico's willingness to pay may be weakening," Oppenheimer said in a previous posting on its website. "But all of this is just speculation… and, in our opinion, likely premature."

Overall, muni bond funds haven't seen such large outflows since the week ending Jan. 1, when they totaled $1.47 billion. That was the last week that saw triple-digit outflows after investors fled muni funds for much of 2013 on concerns out of Puerto Rico's struggling economy and Detroit's bankruptcy.

Overall, the four-week moving average turned negative this week at $97.4 million, said Lipper, a unit of Thomson Reuters.

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(Reporting by Hilary Russ; editing by Andrew Hay)