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Munis Poised for Biggest October Gain Since 2000 Amid Bond Rally.

The $3.7 trillion municipal market is poised for its biggest October rally in 14 years, pushing yields to 16-month lows in defiance of historical trading patterns for the month.

State and local debt has earned 1.45 percent this month, on pace for the best October performance since a 1.5 percent gain in 2000, according to Bank of America Merrill Lynch data. Yields on benchmark 10-year munis have dropped 0.28 percentage point this month, the most since January, to 1.95 percent, data compiled by Bloomberg show.

The move contrasts with the past five years. Yields have jumped an average of 0.19 percentage point in October since 2009, more than all periods except June. The municipal market has joined a volatile October for financial markets: Stocks worldwide lost about $3.3 trillion in market value during the month through yesterday and 10-year Treasury yields dipped below 2 percent for the first time since June 2013.

"The market is going against investors' expectations of higher rates — we've gone nothing but down," said Peter Hayes, head of munis at New York-based BlackRock Inc. (BLK), which oversees $122 billion in local debt. "Rates are certainly getting close to their all-time lows again."

For state and local bonds, the gains extend a streak in 2014 of no monthly losses, an unprecedented feat over the past 25 years. Fueling the advance, individuals have added to muni mutual funds for 14 straight weeks, the longest stretch since October 2012, Lipper US Fund Flows data show.

Munis' 9.9 percent return this year compares with 5.7 percent for Treasuries, Bank of America data show. That's pushed the ratio of 10-year muni yields to similar-maturity Treasuries to 88 percent, close to the lowest this year, Bloomberg data show. A lower figure signals state and local debt is growing costlier relative to federal debt.

Bloomberg

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