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Oil Dive Propels Toll-Road Bonds to Biggest Rally: Muni Credit.

Bonds for tollways are en route to beating the municipal market by the most in nine years as cheaper oil and a growing economy lead more Americans to hit the road.

Debt backed by toll and turnpike revenue has earned 12.1 percent this year, compared with 9.5 percent for all munis, Bank of America Merrill Lynch data show. The outperformance is the most since the data began in 2005 as investors bet that Americans will drive more as the price of oil plunges to the lowest level since 2009.

About 46.3 million people in the U.S. were set to travel more than 49 miles (79 kilometers) during the Thanksgiving holiday period, the most since 2007, according to a projection from AAA. The trend signals a buying opportunity in toll bonds, which offer above-average yields as municipal interest rates remain close to generational lows, according to American Century Investments and Morgan Stanley.

"The toll-road sector is currently attractive and should do well as gas prices stay low and there's more driving, while the overall economy remains strong," said Steven Permut, who oversees $6.5 billion as head of munis at American Century in Mountain View, California.

Avoiding Congestion

Traffic will grow as much as 2 percent next year on average for tollways rated by Moody's Investors Service, while revenue will jump 5 percent, the company said in a report last month. As free roads get busier, tolled routes may lure drivers, according to Moody's, which gives the segment a stable outlook.

Investors should buy more transportation-revenue bonds than benchmarks suggest, according to Michael Zezas, head of muni research at Morgan Stanley. He recommends putting more cash into tollway and airport debt than into any of the other parts of the market listed in a Dec. 8 report.

Crude-oil futures on the New York Mercantile Exchange have plummeted as the U.S. shale boom boosts production while growth in global demand slows. The price fell below $62 per barrel today, the lowest since July 2009.

Average retail gasoline prices have slumped to a four-year low of about $2.64 a gallon, according to AAA. An Oklahoma City station sold gasoline for $1.99 a gallon Dec. 3, becoming the first in the U.S. to drop below $2 since July 2010, according to GasBuddy.

Biggest Borrowers

Municipal issuers have $118 billion of debt tied to toll roads, bridges and tunnels, data compiled by Bloomberg show. The biggest borrowers are the New Jersey State Turnpike Authority, the Bay Area Toll Authority, which runs the San Francisco-Oakland Bay Bridge, and the North Texas Tollway

Authority.

The Texas agency issued $457 million of debt Nov. 5. Bonds rated A2 by Moody’s, the sixth-highest level, and maturing in January 2025 priced to yield 2.89 percent, Bloomberg data show. That was more than the 2.66 percent yield on an index of munis with a similar grade and maturity.

Last week, the Pennsylvania Turnpike Commission issued $294 million of revenue bonds rated A1 by Moody’s, one level higher than the Texas debt. Securities due in December 2024 priced to yield 2.71 percent, compared with about 2.6 percent on an index of similarly-ranked revenue bonds.

Yield Lure

The extra yield means that toll bonds have room to extend the rally, said Dan Solender at Lord Abbett & Co.

“Some of the transportation-type sectors seem to have a little more spread and room to tighten,” said Solender, who oversees $16 billion as director of munis for Lord Abbett in Jersey City, New Jersey.

The outlook for travel next year may be even better as people adjust to cheaper prices, said Michael Green, a spokesman for Heathrow, Florida-based AAA.

“If gas prices remain less expensive well into 2015, we could see people change their driving habits as a result,” said Green, who’s based in Washington.

Less costly gasoline may benefit most of the $3.7 trillion municipal market by increasing discretionary income and tax revenue, said Chad Farrington, head of muni research in Boston at Columbia Management Investment Advisers, which oversees about $30 billion in local debt.

Pinched Parties

Yet energy-producing states may be pinched as tax revenue tied to energy declines, he said. North Dakota, with the lowest unemployment rate nationwide at 2.8 percent, may see its production boom falter if current oil levels persist, Farrington said.

Moody’s in October also cited Texas, Alaska, Oklahoma and New Mexico as states where collections are at risk. Louisiana froze spending last month to prepare for reduced oil revenue.

The decline may be offset in some states by increased hiring, with the U.S. jobless rate at a six-year low of 5.8 percent.

“The domestic economy remains solid and that along with lower oil prices will be very beneficial to the transportation sector,” said Permut at American Century. “We’re going to continue to see strength there.”

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