Bond Case Briefs

Municipal Finance Law Since 1971

BlackRock Likes Barbell Approach for Munis.

BlackRock's municipal-bond team of Peter Hayes, James Schwartz, and Sean Carney today points out that the muni market had a "perfectly positive" year in 2014, posting a net gain in each of the years' 12 calendar months, while muni mutual funds were nearly perfect on a weekly basis, posting net inflows in 50 out of 52 weeks. For 2015, BlackRock says investors should adopt a barbell strategy focusing on short-dated bonds maturing in two years or less and long-dated bonds maturing in 15 to 20 years. From BlackRock:

"Ratios remain attractive (at year-end, 30-year munis were outyielding 30-year Treasuries before tax, making their yields even more attractive after tax). Munis are built for income, and investor appetite for income is insatiable. To wit, demand remains very strong and we foresee another year of net negative supply—a scenario that is good for pricing. Our strategy heading into 2015 is to maintain a barbell approach, holding very short maturities for liquidity and longer maturities for yield pick-up and to benefit from a flattening yield curve. We see greatest value in lower-rated investment-grade securities. Overall, munis are a momentum-driven market. With 2014 momentum well intact, we see little reason for big changes as the calendar turns the page."

Sector-wise, BlackRock likes state tax-backed and essential-service bonds, particularly in Texas, Virginia and the Plains States, as well as school-district bonds and dedicated-tax bonds. BlackRock is underweight land-secured bonds, senior-living bonds and pre-refunded bonds, as well as Puerto Rico bonds.

Barron's

January 12, 2015, 3:23 P.M. ET

By Michael Aneiro