Bond Case Briefs

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Low Oil Prices Could Bring New Energy to Municipal Bonds.

Cheaper oil and gasoline will be a boon to municipal bonds that benefit when drivers hit the road.

Energy bonds have been whacked by plunging oil prices lately. But at least one corner of the fixed-income market is now poised for outperformance thanks to the collapse of crude: municipal bonds backed by revenues from toll roads and airports. Americans are driving and flying more, boosting those transportation-linked munis. And that, say experts, has created an attractive buying opportunity.

Municipal bonds in general are appealing because their interest payments are exempt from federal (and sometimes state and local) taxes. And right now, munis represent good value, says Janney Montgomery Scott municipal analyst Tom Kozlik, whose firm rates municipal bonds as "our strongest conviction overweight call for 2015." High-quality, longer-term munis have historically yielded less than U.S. Treasury bonds of comparable maturities. But as of early January the average yield on triple-A-rated 30-year muni bonds was 2.7%, topping the 2.5% rate for 30-year Treasury bonds.

Tollway and airport debt is especially attractive now, says Michael Zezas, head of municipal research at Morgan Stanley MS -1.07% . For starters, drivers are getting a big break at the pump. As of early January the average national retail price for regular unleaded gasoline had fallen by more than 40% since last summer, according to the U.S. Energy Information Administration. As a result, Moody's Investors Service estimates that toll-road traffic will grow by about 1.5% in 2015 and average toll revenues will rise by 5%, as operators hike rates.

Investors should also look at airport municipal bonds, which are tied to all the revenues (including fees from food concessions, parking, and rental car operators) an airport generates. The average U.S. household this year will spend $550 less on gasoline than in 2014, according to the EIA. And that increased discretionary income bodes well for airport travel, says Randy Gerardes, senior municipal analyst at Wells Fargo Securities. Gerardes also notes that for every 10% drop in aviation fuel prices, air travel increases by more than 10%. He is bullish "specifically on large international gateway airports with significant cargo operations."

You can buy individual municipal bonds through most brokerages. Large municipal issuers have roughly $400 billion in transportation-related debt outstanding, leaving investors plenty of choice. Some of the largest borrowers include the Port Authority of New York and New Jersey, the Bay Area Toll Authority (San Francisco), and the North Texas Tollway Authority. Zezas advises that investors avoid the lowest-rated junk issues and focus on investment-grade offerings.

An even simpler way to gain exposure to toll-road and airport bonds is to purchase the Deutsche X-trackers Municipal Infrastructure Revenue Bond Fund, an ETF that tracks an index of investment-grade infrastructure munis. Transportation-linked bonds currently make up about 54% of the portfolio. Continued low energy prices should help drive up the fund's returns.

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