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March Headwinds Grow as Sales Double From 2014 Pace: Muni Credit.

(Bloomberg) — After logging its first monthly loss since 2013, the \$3.5 trillion municipal market faces headwinds again in March amid accelerating issuance and speculation investors will sell local debt to make tax payments.

With yields hovering above five-decade lows, refinancing boosted muni sales to a combined \$62 billion in January and February, almost double the 2014 pace, data compiled by Bloomberg show. City and state bonds have lost money in March in eight of the past 10 years, partly as investors sold to help pay tax bills before the April 15 filing deadline.

“Heading into this time horizon, seasonal factors tend to provide the foundation for market weakness,” said Jeffrey Lipton, head of municipal research at Oppenheimer & Co. in New York. “The road to performance will certainly be paved with volatility.”

The municipal market has lost about 0.3 percent in March, according to Bank of America Merrill Lynch data. It declined about 1 percent in February, snapping a record 13-month rally as fixed-income assets dropped while offerings by localities surged.

March Slog

If history is any guide, more losses are ahead: Yields on benchmark 10-year munis have risen in March for six straight years, with the average increase about 0.16 percentage point, Bloomberg data show. Bond yields move inversely to prices.

Munis aren’t alone in their March struggles. Treasuries declined in March in seven of the past 10 years, and corporate debt in six.

At about 2.16 percent, the benchmark 10-year muni interest rate is the highest since December. Yet municipalities are still coming to market to reap savings through refinancing. The University of California, New York City and Dallas are set to lead about \$6 billion in refinancing next week, out of about \$10.4 billion of sales.

Since 2004, supply has been higher in March than in January and February every year except 2011, Bloomberg data show. The sales upswing often coincides with declining demand from investors because they’ve mostly already reinvested coupon payments received in December and January, according to Citigroup Inc. research.

Tax Shift

Tax-related selling has also contributed to the pattern of March weakness, although that may be shifting as income levies have risen, said James Dearborn, head of munis in Boston at Columbia Management Investment Advisers, which oversees \$30 billion in local debt. The top federal rate climbed to 39.6 percent as of last year, the highest since 2000, increasing the appeal of tax-exempt

income, he said.

“The increase in the personal income-tax rate has changed people’s sense about selling munis to pay for taxes,” Dearborn said. “As they’re looking at their tax bill, they’re often thinking, munis are the last thing I want to be selling.”

State and city debt is faring better this month than both Treasuries and corporate debt, both of which have lost about 0.5 percent since the end of February.

“We could certainly be positioning ourselves for negative performance in March, but the question is, with that negative performance, are we still going to outperform Treasuries?” said Lipton at Oppenheimer. “There’s a real possibility that we can.”

Bloomberg Muni Credit

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