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Munis Now a Better Value, Says BlackRock.

Municipal bond investors should use the volatility that kicked off in February as a buying opportunity, advises investment management firm BlackRock.

“One of our themes is living with volatility,” says Peter Hayes, who runs the municipal bonds group at BlackRock, which has $116 billion in assets under management. “We recommend taking advantage of any selloff to lock in a better entry point.”

March has provided one such entry point after a rough February in which the S&P Municipal Bond Index returned -0.92%. For the 13 months prior, munis did well, says Hayes, so he wasn’t surprised there was a correction. He says the decline wasn’t due to a dramatic change in investor sentiment, but was partly due to increased supply.

That’s because the decline in yields over the course of 2014 inspired local governments to refinance their debt at the new lower rates. “It took a market adjustment to absorb,” says Hayes.

The new supply isn’t going away anytime soon. “As long as rates stay low, we will see more refundings,” says Hayes, although he thinks the rush to lock in the low rates will cool somewhat by year end.

The Federal Reserve is likely to raise rates later this year, but Hayes doesn’t expect a dramatic rise in muni yields in 2015.

He concludes a research note this week on muni market performance:

> Muni-to-Treasury ratios remain historically compelling, and recent market action has left munis attractive vs. corporate bonds as well.

Barron’s

By Amey Stone

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