

# **Bond Case Briefs**

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## **Muni Yields Driven Lower by Greece as Puerto Rico Woes Ignored.**

Who would have guessed that the turmoil in Greece would matter more to municipal-bond investors than Puerto Rico's flirtation with insolvency?

Yields on U.S. tax-exempt debt are the lowest since May, joining a broad fixed-income rally amid Greece's standoff with creditors even after Puerto Rico declared its \$72 billion of debt unpayable.

Ten-year yields fell to 2.28 percent Wednesday, the least since May 13, data compiled by Bloomberg show. At the same time, outflows from municipal mutual funds swelled to \$1.2 billion in the week through July 1, the most in 18 months, according to Lipper US Fund Flow data.

"It's a very interesting dynamic: you've seen successive weeks of outflows," and yet yields have dropped, said Jeff Lipton, head of municipal research in New York at Oppenheimer & Co. "We've seen a flight to quality, and a lot of that has to do with Greece."

Puerto Rico Governor Alejandro Garcia Padilla's abrupt announcement last week that he wants to restructure the junk-rated commonwealth's debt coincided with an escalating crisis in Greece. The euro-zone tension sent investors into safer assets, with 10-year U.S. Treasury yields plunging 0.15 percentage point on June 29, the most in three months. The highest-quality state and local debt also rallied.

About 40 percent of the fund outflows last week were from high-yield funds, which are the most likely to hold Puerto Rico's bonds. Commonwealth securities have plunged 7.2 percent since June 26, the last trading day before Garcia Padilla's announcement, S&P Dow Jones Indices data show.

The ratio of 10-year muni interest rates to those of Treasuries, a measure of relative value, is about 102 percent, up from 97 percent on June 26. A higher figure signals tax-free bonds have weakened relative to their federal counterparts.

### **Bloomberg**

by Brian Chappatta

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