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Muni-Bond Buying Falls to Decade Low as Investors Balk at Yields.

The buy-and-hold strategy that dominates the municipal-bond market is lacking the buying side of that equation.

Securities dealers' customers, including individuals and mutual funds, purchased less than $20 billion of state and local government debt in each of the last 27 trading days, according to a rolling five-day average compiled by research firm Municipal Market Analytics. That's the lowest level of trading in at least a decade, a sign that individuals are hesitant to buy more municipal debt with benchmark interest rates close to a five-month low.

"Yields are extremely low and so people who own bonds have reinvestment risk," said Matt Fabian, a partner at Concord, Massachusetts-based MMA. "You could trade it away, but what do you trade into? Spreads are so tight that you don't get much of a pickup in trading by extending maturity or buying lower-grade credits."

The $3.7 trillion municipal market has rallied since the Federal Reserve last month kept borrowing costs close to zero. That pushed the yield on AAA 10-year munis down to 2.07 percent from as much as 2.4 percent in July, data compiled by Bloomberg show.

It's not easy to find securities with yields that are much higher. Investors get an extra 1.04 percentage points of yield to buy 30-year debt instead of bonds due in a decade, a less attractive proposition than the 1.24-percentage-point average pickup over the past five years, Bloomberg data show. BBB rated 10-year bonds have interest rates 1.13 percentage point higher than top-rated munis, below the average spread of 1.33 percentage point since the start of 2013.

It doesn't help trading volume that the way individuals buy and sell munis is shifting, Fabian said. Fewer investors have brokers who are paid a commission for each trade, instead of a money-management fee, which is curbing the financial incentive for brokers to buy and sell bonds at a time of depressed yields, he said.

"There needs to be more opportunity in trading — we need at least more volatile spreads," Fabian said. "Higher yields would definitely help."

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by Brian Chappatta

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