# Bond Case Briefs

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## Muni Bonds Backed by Junk Companies Feel Pain of High-Yield Rout.

The corporate junk-bond rout has mostly left few ripples in the $3.7 trillion municipal market, with one exception: Tax-exempt debt issued by the high-yield companies.

Local-government bonds sold on behalf of U.S. Steel Corp., the nation's second-largest producer, traded Monday at an average of about 67 cents on the dollar, the lowest price since they were issued in November 2009 and down from 113 cents to start the year, data compiled by Bloomberg show. They have a B2 rating from Moody's Investors Service, five steps below investment grade. Trading in tax-free debt backed by Marathon Oil Corp. jumped to a two-month high on Dec. 11, with prices touching the lowest in nine days even though it has an investment-grade rating.

Fortunately for high-yield muni buyers, corporate-backed credits make up only a sliver of the tax-exempt market. There's about $7 billion of fixed-rate, non-investment-grade and tax-free industrial-development bonds, Bloomberg data show. By comparison, Puerto Rico has $70 billion of debt outstanding, while states and localities have sold $23 billion of junk-rated tobacco securities, the data show.

"The drop in commodity prices and the plunge in oil has certainly had an impact on several of the corporate credits" in the municipal market, said Jim Colby, who runs the $1.7 billion Market Vectors High Yield Municipal Index exchange-traded fund, the largest of its kind.

Apart from corporate borrowers, "there's healthy appetite for municipal high-yield," he said. His fund has returned 3.9 percent this year, compared with a 6.8 percent loss for the largest ETF that invests in junk-rated companies. "There's still plenty of cash for investment going into the end of this year."

Individuals have poured money into high-yield muni mutual funds for 10 straight weeks, adding $1.8 billion over the period, Lipper US Fund Flows data show. By contrast, funds focused on junk-rated corporate borrowers saw $3.5 billion of withdrawals in the week through Dec. 9, the most since August 2014, the data show.

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