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## **Muni Market Still 'Constructive' Despite A More Hawkish Fed: MMA**

Short-term Treasuries hit a new five-year high earlier today, but Municipal Market Analytics' Matt Fabian and Lisa Washburn turn their attention to municipal bonds Monday, writing that despite the Federal Reserve's rate hike, the muni market still looks constructive.

They write that it's "hard to expect much dynamism in the next few days" in this short holiday trading week. Aside from lower volumes they write that bond levels and valuations are "rich across the curve" with tight spreads that are not likely to entice buyers to jump in at the moment, nor is the steady influx of fresh capital to municipal mutual funds helping.

In this environment, Fabian and Washburn write that it's no surprise that both fixed and floating tax-exempt yields have outperformed their peers, a situation they expect to continue near-term, especially as the U.S. Treasury curve flattening may be losing steam. "This is more a signal for unchanged taxable term spreads than a shift to bear steepening.

However, they note that at some point in the future, this outperformance for munis will begin to limit additional relative value gains, as well as tie their prices even more directly to Treasuries.

Their advice:

Municipal bond valuations are indicating that bonds are somewhat to largely over-bought at the 5yr mark and longer. Buyers who need to spend cash before year end should strongly consider the front of the curve where ambivalence over future rate hikes should work to their advantage. Sellers can be less choosy as current spreads reward taking gains.

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By Teresa Rivas

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