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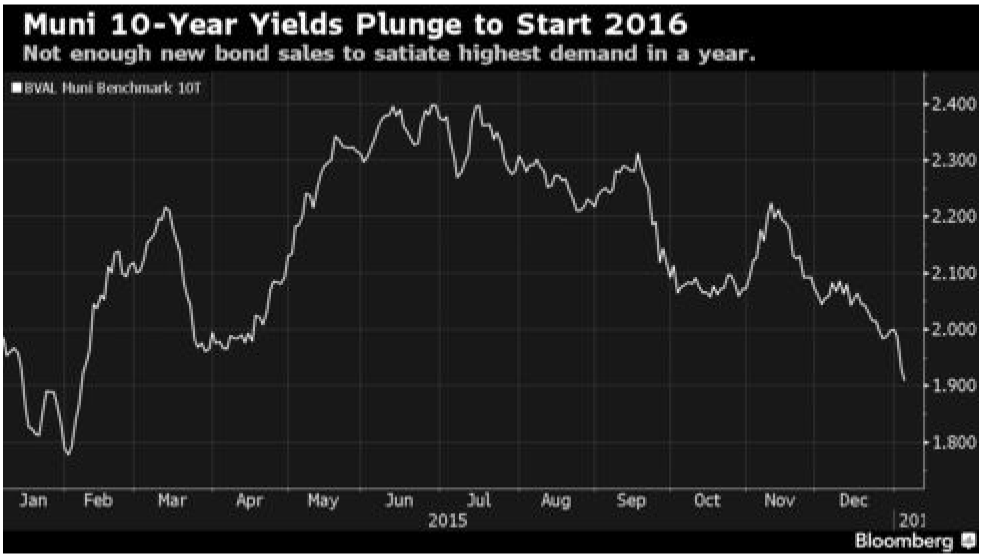
Muni Yields Plunge to 11-Month Low as Wave of Cash Dwarfs Supply.

Municipal-bond yields plunged to the lowest level since February after investors plowed the most money into tax-exempt mutual funds in almost a year and stock prices slid.



The yield on an index of 10-year AAA municipal bonds has declined 0.09 percentage point this week to 1.91 percent, the lowest since Feb. 5, according to data compiled by Bloomberg. Yields on benchmark munis due in 30 years have dropped 0.07 percentage point since the end of 2015 to 2.83 percent, the lowest since Feb. 11.

The drop has been fueled by a flood of money into the $3.7 trillion market. Individuals added $1.3 billion to muni funds in the week through Dec. 30, the most in almost a year, Lipper US Fund Flows data show. It marked the 13th consecutive week that they've gained money, the longest streak since the end of 2014.

Meanwhile states and cities are issuing $2.9 billion of debt this week, slowly ramping up from the $3 billion offered in the final two weeks of 2015.

"We're performing well because of a lack of supply in our market, which is typical for early January," said David Manges, muni trading manager at BNY Mellon Capital Markets LLC in Pittsburgh. "We're also seeing a lot of customer cash being put to work and a lot of reinvestment money being put to work."

Munis have already returned 0.37 percent in 2016, compared with 0.13 percent for U.S. Treasuries and 0.17 percent for investment-grade corporate bonds, Bank of America Merrill Lynch data show. It would be the fifth-straight year of gains in January. In each of the past two years, the first month proved to be the best for returns.

A decline in stock prices worldwide has also led investors to shift money into the safest assets. Yields on benchmark 10-year U.S. Treasury notes have dropped 0.08 percentage point to 2.19 percent since the end of last year.

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