Muni Yields at 50-Year Lows Make Buyers Wary of Calling Bottom.

Some of the biggest municipal-bond buyers have stopped trying to call the market's peak.

Just 38 months after tax-exempt yields touched the lowest since 1965, they're back at that level following a rally in the safest assets as investors seek havens from the global financial turmoil. For BlackRock Inc., Nuveen Asset Management and Vanguard Group Inc., which combined oversee some 10 percent of the $3.7 trillion municipal market, the plan is to keep buying — and avoiding large bets one way or another on where interest rates move next.

"Calling rates is not easy — you have a flight to quality going on, and trying to call that turning point is oftentimes difficult," said Chris Alwine, head of muni funds in Malvern, Pennsylvania, at Vanguard, which oversees $155 billion of the debt. "That's really the debate going on in munis right now: You're dealing with macro forces that are forcing rates lower, and then muni factors indicate there's some vulnerability in the market. When we put that all together, we're positioned more neutrally."

China's economic slowdown and plunging oil prices have buffeted global equity markets, sending the Standard & Poor's 500 Index down by more than 7 percent this year. Seeking to avoid stock-market losses, individuals have poured $4.7 billion into mutual funds focused on state and local-government debt this year, extending a 19-week stretch of inflows, Lipper US Fund Flows data show.

The yield on a Bond Buyer index of 20-year municipal general-obligation bonds fell last week to 3.27 percent, matching rates reached in December 2012 for the lowest since 1965. Top-rated 10-year munis yield 1.6 percent, just above the low hit in late 2012, according to data compiled by Bloomberg.

With investors shunning risk, not all securities have benefited equally from the rally. The yield difference between 10-year bonds rated BBB, the lowest tier of investment-grade ranks, and AAA debt last week reached 1.06 percentage points, the widest since November, Bloomberg data show. The spread between A rated revenue bonds and top-rated debt hit 0.64 percentage point, the widest since August 2014.

"We have to focus on relative value analysis because we cannot predict the absolute value," said John Miller, co-head of fixed income in Chicago at Nuveen, which manages more than $100 billion of munis. "We can't sit back and say we don't buy bonds unless they yield more than" a certain amount.

Bets on higher interest rates from the Federal Reserve this year mostly have been thrown out the window, two months after the central bank raised its target for the first time since 2006. Bond traders are pricing in a 40 percent chance that the Fed will raise rates by year-end, futures indicate. Just months ago, the major debate was over how many times the central bank would raise borrowing costs this year.

One threat to the recent price gains is the prospect that sales of new bonds may increase. Issuance in March has exceeded that in January and February each year since 2012, Bloomberg data show. Because of that trend, benchmark 10-year yields have increased during the month in six of the past seven years.

“We’re being pulled lower in yield by Treasuries, the question is do we get pushed higher in muni rates in terms of issuance?” said Peter Hayes, head of munis at BlackRock, the world’s largest money manager, which oversees $110 billion of the debt. He said the company is slowing muni purchases until supply picks up.

Alwine, Hayes, Miller and their peers can’t afford to wait around too long with money flowing into their funds and the broad market. Individuals have added $6.8 billion to muni funds since the Fed lifted interest rates on Dec. 16, the Lipper data show. Since then, benchmark 10-year muni yields have declined by almost half a percentage point.

“Investors are more comfortable now with the fact that rates aren’t going to spike up significantly,” Hayes said. “They realize they need to get invested. There’s an opportunity cost of sitting in cash too long.”

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