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American Smoking on the Rise Ignites Tobacco Bonds.

Municipal tobacco bonds have returned 17.4 percent over the past year, more than triple the gain of the broad tax-exempt market, S&P Dow Jones Indices data show. The securities have surged because the cigarette shipments backing them as part of a 1998 settlement agreement increased last year by 1.9 percent, the most ever, according to data from the National Association of Attorneys General. The rally in tobacco bonds, which are mostly speculative grade, is a stark contrast to the other large high-yield segment of the municipal market: Puerto Rico debt is down 4.7 percent in the last 12 months.

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by Brian Chappatta

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