Bond Case Briefs

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Already Hot U.S. Municipal Bond Market Rallies Further on Brexit.

NEW YORK, June 24 (Reuters) – U.S. municipal bond yields blew through previous record lows on Friday as investors snapped up tax-free debt amid a global flight to safety after Britain voted to leave the European Union.

Yields on top-rated munis fell as much as 20 basis points, with movement especially steep in longer maturities, according to a preliminary read of Thomson Reuters' Municipal Market Data's (MMD) benchmark scale. Bond prices move inversely to yields.

The $3.7 trillion muni market, most of which is investment-grade tax-exempt debt issued by states and cities, was already on a hot streak with no end in sight, with demand outstripping supply for months.

For 38 straight weeks, investors have poured money into muni bond funds with a net $30.4 billion added year-to-date. The week ended June 22 had the highest inflows in over three years at $1.4 billion, according to Lipper data.

Over the past 12 months, munis have returned 7.03 percent versus 5.18 percent for Treasuries, according to Barclays indices.

The "feeding frenzy" for muni bonds is unabated, said Bank of America Merrill Lynch research strategist Philip Fischer.

"Munis are very strongly bid and we've been bullish on the muni market for a long time. We remain bullish," he said, adding: "We expect we will have another new low in muni rates in the next couple of weeks and we'll probably get some profit taking then and rates will go back down before the end of the year."

Low muni yields allow state and local governments to borrow, for infrastructure, school construction and more, and refinance old debt at affordable interest rates.

Yet debt issuance has been low in part because of a lingering austerity mindset among many public officials after the recession prompted painful public sector spending cuts.

Issuance totals $205.5 billion so far this year, a 2 percent drop over the same period in 2015, according to Thomson Reuters data.

Yields hit lows on June 16 for 10-year and 30-year munis, at 1.42 percent and 2.13 percent, respectively, according to MMD.

MMD data goes back to June 1981, when the yield on a AAA-rated 30-year bond was 10.20 percent.

Some have urged caution because even riskier muni bonds are now expensive.

Even so, investors are not likely to rush to cash out, said Dawn Daggy-Mangerson, director of municipal portfolio management at McDonnell Investment Management.

“Munis are a nice place to put your money until things settle down,” she said.

By Hilary Russ

(Reporting by Edward Krudy and Hilary Russ in New York; Additional reporting by Karen Pierog in Chicago; Editing by Daniel Bases and Tom Brown)