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BlackRock Says Election, Fed Uncertainty to Benefit Muni Buyers.

While the $3.8 trillion municipal-bond market may have just posted its first negative quarterly returns since last summer, BlackRock Inc. says a buying opportunity is presenting itself.

Tax-exempt bonds lost 0.38 percent in September, the first quarterly drop since the three months ended in June 2015, and trailed Treasury bonds after another month of record-setting issuance and slowing demand.

$35.7 billion of municipal bonds were issued in September, 35 percent above the five-year average and up 51 percent from September 2015, according to BlackRock, which oversees $124 billion of municipal bonds.

Strong issuance in August and September has continued into October, said Sean Carney, director of municipal strategy in New York at BlackRock and one of the authors of a report released Monday. With uncertain political and economic events on the horizon, the issuers are "pulling deals forward."

"Issuers are going to bring deals today rather than in uncertain times," said Carney. "The amount of uncertainty the U.S. presidential race and the Fed rate hike are bringing to the market is causing increased issuance."

Though recent weeks have seen weaker flows, demand for municipal bonds has remained "largely positive." September saw nearly $4 billion enter municipal funds, bringing year-to-date inflows to $51 billion.
"This pocket of supply-induced weakness has not been followed by a pocket of demand weakness," said Carney.

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by Katherine Greifeld

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