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U.S. High-Yield Muni Bond Fund Outflows Set Record.

U.S. municipal high-yield bond fund outflows set a record during the week ending Nov. 16, with investors dumping the tax-exempt sector as U.S. Treasuries plummeted after the stunning victory by President-elect Donald Trump on Nov. 8, data on Thursday showed.

Investors pulled \$1.59 billion out of high-yield muni bond funds, the most ever in a single week since Thomson Reuters' Lipper service began reporting such data in 1992.

Overall, investors took \$3 billion out of all muni bond funds, the largest outflows since late June 2013, the data showed.

Trump's win in the U.S. presidential election has spurred a rally in U.S. stocks and a rout in fixed-income markets on the expectation of more fiscal stimulus leading to rising inflation, which undermines bond market investment returns.

The junk muni bond sector had been riding high this year as investors seeking yields in what is an otherwise low interest rate environment sought fatter returns in new places, even moving down the credit quality scale to get it.

With the supply of new muni bonds low and demand high all year, prices rose and provided a sweet spot in the global financial markets.

But U.S. states, cities and other issuers returned to the market en masse in the back half of 2016. They sold a record level of debt in October, which widened spreads, dampened munis and prompted small outflows even before the Nov. 8 presidential election.

High-yield munis were first to feel the strain, with tobacco bonds, the most liquid in the speculative arena, losing ground in heavy trading before Trump won the election.

Then, after Nov. 8, Treasury yields rocketed higher. Muni yields followed, gaining 50 basis points in the week since then on 10-year benchmark tax-exempt debt, according to Municipal Market Data, a Thomson Reuters unit. Yields move inversely to prices.

"When rates move that far that quickly, it does unnerve investors," said Jim Colby, manager of VanEck Vectors High-Yield Municipal Index ETF.

Columbia Threadneedle Investments portfolio manager Chad Farrington said the firm's high yield muni fund started to see outflows over the last three weeks.

Most of the price weakening was because munis tracked Treasuries. But some may have been due to concerns about whether Trump's proposed income tax cuts and other policies might dampen appetite for muni bonds or limit their tax exemption, Farrington said.

High-yield outflows "are also driven by sticker shock over the [net asset values] of the high yield funds, which have declined precipitously since early November," said Chris Mauro of RBC Capital

Markets.

“The concern is that we’re seeing a familiar pattern develop in which the high yield outflows are starting to bleed into the long investment grade funds,” Mauro said.

Nuveen’s High Yield Municipal Bond Fund topped all outflows this week. Since the beginning of the month its net asset value has dropped about 4.4 percent.

The biggest fund in its peer group, Nuveen’s high-yield muni fund “on an absolute basis... would expect to have the largest outflows,” said Nuveen’s head of tax-exempt fixed income John Miller.

“We have been through selloffs that involve outflows numerous times in the past, so we are using this period to benefit fund shareholders, given the higher yields and wider credit spreads available in the marketplace,” he said.

“Fundamentals have trended favorably over the course of the year as a whole, and nothing in this period changes these fundamentals.”

Reuters

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Nov 17, 2016 | 7:41pm EST

(Reporting by Hilary Russ; Editing by Daniel Bases and Diane Craft)