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Yields on Treasury-Backed Muni Bonds Soar to Highest Since 2009.

- Mutual fund selling creates bargains for pre-refunded bonds
- Bloomberg Barclays Muni Prerefunded Index hits 1.53%

The more than $5 billion exodus from municipal-bond funds in November is creating bargains in an often overlooked corner of the tax-exempt debt market.

An index of municipal bonds that are pre-refunded — or paid off as they come due with the proceeds of Treasuries that are held in escrow — yields 1.53 percent, the highest since July 2009. To meet redemptions, mutual-fund mangers are selling the bonds, which are rated AAA because they're secured by the income from the federal-government debt.

The selloff triggered by Donald Trump's presidential victory drove state and local-government securities to a 3.46 percent loss in November, the worst month since September 2008, when financial markets seized up after the collapse of Lehman Brothers, according to the S&P Municipal Bond Index.

The Republican's pledge to cut income taxes and boost spending on infrastructure stoked speculation that the Federal Reserve will need to increase interest rates more aggressively to keep inflation from picking up. Tax cuts could also lessen demand for municipal bonds, whose interest payments are exempt from the federal income tax.

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