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## Policy Uncertainty Is Killing Muni Volume.

After a rough post-election period, municipal bonds are holding up just fine this year. But while index returns are up slightly, volume is way down.

That decline reflects caution among investors about where tax policy is headed. If tax cuts are put in place, munis could become less appealing.

**Morgan Stanley muni strategist Michael Zetas** writes Monday:

The tale of the tape, in our view, shows an investor base lacking conviction. Consider, for example, the ratio of bid-wanted relative to trade volume. While they have recently eased, levels since the beginning of the year are elevated on a combination of lower trade volume and larger bid lists. This suggests an investor base that is testing liquidity and playing it safe.

Zetas says that negative sentiment would normally be a sign to add munis to a portfolio. But in this case he thinks it is appropriate for investors to be cautious.

We sympathize with the implied caution being expressed for two reasons: 1) policy risks, including existential tax risks, still loom large in the muni market; 2) valuations aren't obviously reflecting that risk.

The benchmark-tracking **iShares National Muni Bond ETF** (MUB) is up 0.1% year to date at \$108.34, but is down 3.2% in the past year.

**Barron's**

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February 13, 2017, 1:45 P.M. ET

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