# Bond Case Briefs

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## ‘Trump Trade’ Reversal is Afoot as Money Flows to Bonds.

***Muni inflows suggest investors scaling back tax-cut expectations: BAML***

If fund flows are an indication, investors are giving up on the “Trump trade.”

As doubts about the timing and scope of President Donald Trump’s plans for corporate tax cuts, infrastructure spending and other policies grow, disillusioned investors have departed U.S. stock funds in favor of bonds, emerging markets and even European equities, according to weekly data compiled by analysts at Bank of America Merrill Lynch.

The fortunes of bonds have peaked as investors shift away from risky assets to haven investments, said Michael Hartnett, Bank of America Merrill Lynch’s chief investment strategist, in a Friday note. Even though stocks accrued $6.3 billion of additional cash against the $6.1 billion rushing into bonds for the week ending April 14, the longer-term trend remains firmly in favor of fixed-income assets.

In the past four weeks, U.S. bond funds drew around $36 billion in flows compared with the $4.2 billion that moved into stock funds. As investors bid up Treasurys, the 10-year Treasury note yield TMUBMUSD10Y, +0.00% continued to fall, this week hitting 2.233%, the lowest since November. Yields and bond prices move in opposite directions.

Similar dynamics have benefited the municipal bonds sector. Municipal bond funds recorded their third largest inflows ever of $1.6 billion, which “hints at acceptance U.S. tax reform will be far more modest than initially advertised,” Hartnett wrote.

The asset class’s recent outperformance has enjoyed a bump from doubts surrounding the outlook for tax changes. Municipal bonds attract rich retail investors that benefit from their considerable tax exemptions. But if Trump brings down income-tax rates for the wealthy or waters down the existing tax exemption, the chief appeal of holding municipal bonds will fade.

Elsewhere, European stocks have gained ground as the region’s economy shows signs of strength. European equity funds notched $1.8 billion of inflows, the highest they’ve been in 68 weeks, the analysts said.

Analysts say Trump’s touted desire for the dollar to weaken strengthens the case for investing in emerging markets. Emerging market assets, especially bonds denominated in dollars, tend to gain in value when the U.S. currency is weaker as foreigners find it easier to service debt. Funds investing in emerging market debt have recorded 11 straight weeks of inflows.

**MarketWatch**

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