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With Trump's Stumbles, Muni Bonds See Record Winning Streak.

- **No price declines for longest stretch since Jan. 2009**
- **“The price appreciation is not over,” says one investor**

Municipal bonds are having an unprecedented winning streak.

The price of benchmark 10-year U.S. state and local government debt has risen — or held steady — every day since March 14, marking the longest stretch without a single daily decline since the Bloomberg index begins in Jan. 2009. The rally pushed yields down by nearly half a percentage point to 2.05 percent by Wednesday, as investors retreat from post-election speculation that President Donald Trump would swiftly push through sweeping infrastructure and tax-cut plans.

The price gains have wiped out much of the losses suffered late last year, when investors wagered that Trump’s fiscal plans would prod the Federal Reserve to raise interest rates more aggressively to head off inflation. The potential for lower tax rates also threatened to reduce demand for municipal bonds, which are largely held by investors seeking income that’s exempt from the U.S. income tax.

Investors braced for “Trump’s policies not only being implemented but also being successful,” said Robert Waas, chief executive officer of RSW Investments, which has more than $2 billion under management. “What you’ve started to see is an unraveling of that as investors have realized it’s not as easy. Now it’s payback time as municipals are having their time in the sun and are outperforming Treasuries.”

The state and local bonds have returned 2.5 percent this year, nearly a full percentage point more than Treasuries, according to Bloomberg Barclays indexes.

The sentiment began shifting after the Republican-led Congress failed to repeal the Affordable Care Act, said Christopher Sperry, a vice president and portfolio manager at Franklin Templeton. Republicans’ inability to act on one of their long-stated priorities raised doubts that Trump’s administration will be able to tackle the arguably more difficult challenge of rewriting the tax code.

“Here you have an administration with both houses of Congress, and it’s certainly not going to be as easy for these reflationary fiscal policies as everybody thought,” Sperry said.

The municipal sector’s strong run may still have legs, according to Jeffrey Lipton, the head of municipal research at Oppenheimer & Co. “The desire for haven assets is likely to be more pronounced throughout the foreseeable future as compared to the more extended demand for risk assets that emerged following the election,” he said.

Although yields have tumbled, they remain above where they were before Trump’s election. RSW’s Waas said there may be more upside ahead: He anticipates that the yield on 10-year Treasuries — now about 2.17 percent — will slip below 2 percent by the year’s end. He estimated that municipal bond yields should be about 90 percent of Treasuries, given the tax breaks — or less than 1.8

percent.

“The price appreciation is not over,” he said. “There is more price appreciation in our future.”

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