Bond Case Briefs

Municipal Finance Law Since 1971

Municipal Bonds Richest in a Year as Supply Dries Up in Summer.

- **New Jersey, New York and California show net negative supply**
- **Muni sector forecast to show robust performance this summer**

State and local debt hit its richest value compared with Treasuries in about a year, as demand for the securities remains robust against shrinking supply.

The index that tracks the benchmark 10-year municipal bond yield as a percentage of U.S. Treasuries sunk to 86.9 percent this week, the lowest since June 2016, according to Bloomberg data. At the beginning of the month, the gauge hovered near 95 percent.

The rally in municipal debt comes as analysts expect supply to continue to shrink in the summer months at the same time that cash-rich investors will have a hoard to invest. Citigroup Inc. analysts predicted that the market will shrink by $39.5 billion between June and August, while investors will receive $44 billion in interest payments.

“Because of the lack of supply relative to demand, and because of the relative height of nominal yields, its going to be hard for munis to project weakness over the summer,” said Matt Fabian, a partner with Municipal Market Analytics Inc., in a telephone interview. “Left to their own devices, munis will be prone to rally.”

Not all states are created equal. New York, California, and New Jersey show the most extreme net negative supply numbers as of May 25, with the Empire State posting negative $5.3 billion. All but seven of the 50 states posted negative net supply figures during the same time frame.

“We’re heading into a period of even more pronounced supply shortage. Unless governments dramatically increase their borrowing for infrastructure, we’re heading into a period with a shortage of bonds,” Fabian said.

Bloomberg Markets

by Rebecca Spalding

May 26, 2017, 10:11 AM PD