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Municipal Bond Sales Hit Seven-Year Low.

- **Issuance fell to $16 billion, down 50 percent year-on-year**
- **Municipal market delivers negative return of about 1.1 percent**

Municipal-bond analysts' forecasts for January were half right.

Widespread predictions that sales of new debt would tumble were prescient, with issuance sliding to about $16 billion, half what it was a year earlier. But they were wrong that the slowdown — coupled with a surge of cash looking to be reinvested — would deliver solid returns. Pulled down by the Treasury market's selloff, state and local government bonds are poised for their first January loss since 2011 and the biggest for the month since at least 1981, according to the Bloomberg Barclays index.

It "took a lot of people by surprise, including me," said Gary Pollack, the head of fixed income trading and research at Deutsche Bank AG's private wealth division, who was among investors who snapped up bonds in December, anticipating that they'd fare well because provisions in the federal tax overhaul promised to reduce tax-exempt debt sales.

"I think this could continue, and that is my fear," he said. "It wouldn't be pretty, it would be a continuation of ugly performance."

The selloff in the Treasury market turned a usually winning month into a losing one, with the municipal market delivering negative returns of about 1.1 percent. January returns have typically been driven by a drop in new issues just as investors receive interest and principal payments.

This year, the slowdown was exaggerated by a record-setting wave of bond deals last month, as state and local governments rushed to borrow before the federal tax overhaul blocked them from selling tax-exempt debt for advance refundings, a key type of refinancing. January's issuance was the slowest start to a new year since 2011, when long-term issuance was $13.6 billion.

Citigroup Inc. analyst Vikram Rai said the expectations for strong monthly performance were upset by speculation about rising interest rates, diminished buying by banks and insurance companies and concern among some buyers about the consequences that the federal tax changes would have on high-tax states.

"We are bullish on munis — it just takes time for these factors to take effect," he said. "There's cash on the sidelines but they're holding back because of current fears. But once those fears dissipate, they will invest again."

Bank of America Corp. was the top underwriter in January, managing more than 27 percent of the volume so far this year. RBC was the runner up, at 12.6 percent, according to Bloomberg LEAG tables.

School districts topped general obligation bond sales, comprising 21.5 percent of new issuance, led by a $219.6 million sale by Fairfax County, Virginia. Topping the revenue bond sector were gas contract bonds, with deals by Main Street Natural Gas in Georgia and Kentucky Public Energy. The two deals alone accounted for 10 percent of all new offerings.

The competitive market accounted for about 32 percent of issuance volume. By comparison, the competitive sales made up about 23.6 percent of the long-term municipal market in all of 2017.

Empire State Dominates

New York issuers lead 2018 issuance helped by MTA and Port Authority Sales

Analysts broadly anticipate that bond issuance will fall this year, though it’s possible that provisions of President Donald Trump’s infrastructure plan may seek to spur borrowing by states and cities. Given December’s borrowing binge, though, analysts previously forecast that new muni-debt sales could fall by more than a third this year.

“The muni market is a market that runs on supply,” said Pollack. “The supply factor is an important one for the muni market and supply was actually stronger in January than I thought.”

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By Danielle Moran and Zachary Hansen

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