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Municipal Bonds Head to Worst Rout Since Trump's Win.

- **State, local government debt tumbled along with Treasuries**
- **'We could still see a slow and steady grind up in yields.'**

U.S. state and local government bonds headed toward their biggest weekly drop since President Donald Trump's election, joining a selloff in the Treasury market amid speculation that a pickup in hiring may cause the Federal Reserve to raise interest rates more aggressively.

The yield on top-rated 30-year debt climbed 5 basis points Friday to 3.03 percent, the highest since May, after the Labor Department reported that payrolls grew in January at a faster-than-expected pace. Those yields have risen about 18 basis points this week, marking the steepest rise since Trump's victory raised concerns that inflation would accelerate.

The rout for municipals was driven by the global bond selloff, said Dawn Daggy-Mangerson, a managing director at McDonnell Investment Management, which has been selling shorter-term debt and buying bonds maturing in 10 to 15 years. The rise in yields was in line with the jump in those on Treasuries this week.

Municipals are "not going to be able to withstand this big of a move," said Daggy-Mangerson, whose firm holds about $7.5 billion of state and local debt.

While analysts have predicted that municipal bonds would benefit from a drop off in supply this year, the market's slide since January has upended some short-term forecasts. Jonathan Law, vice president and portfolio manager for Advisors Asset Management, which oversees about $325 million in municipals in separately managed accounts, said he thinks the decline may not be over.

"You have to wait for things to play out," he said. "I think we could still see a slow and steady grind up in yields."

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