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Muni Market Headed for Worst Start of a Year Since 2008 Crisis.

- **Munis poised to post 1.5% loss in first two months of the year**
- **Selloff driven by Fed, less corporate buyers after tax reform**

This year hasn't been kind to the $3.8 trillion municipal-bond market, which is starting off with the biggest loss since the turmoil of the credit crisis a decade ago.

State and local government bonds are headed for a 1.5 percent loss, the first drop for the first two months of a year since 2008, when they tumbled by more than 3 percent, according to Bloomberg Barclays indices. The poor performance comes after Congress enacted an overhaul of the tax code that reduced the appeal of tax-exempt debt to corporations and amid expectations that the Federal Reserve will raise interest rates more aggressively than previously expected.

"It's going to be a very tough market," said Mike Brilley, senior vice president for Sit Investment Associates, which holds about $4 billion of municipals. "But getting interest rates up to levels above inflation is a very attractive development."

Yields on top-rated municipals maturing in 30-years have soared in 2018, climbing to 3.1 percent on Wednesday, the highest since last March.

Brilley said the selloff has been driven by "significantly reduced" interest from insurance companies and banks after their income-tax rates were slashed to 21 percent, reducing the allure of tax-exempt bonds.

Investors may want to thank the deep slowdown in the pace of new bond issuance this year for preventing returns from going deeper in the red. Sales fell 38 percent in January and February from a year earlier after Congress eliminated a key debt-refinancing tool and as interest rates rise.

"If it were not for the lack of supply, year-to-date muni returns would be even weaker," Jeffrey Lipton, head of municipal research and strategy at Oppenheimer & Co., said in a note this week.

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By Amanda Albright

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