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If You're Fleeing Volatility, There's Refuge in the Muni Market.

- **10-year yield has budged 0.01 percentage point in three weeks**
- **Muni prices haven't been this steady in nearly three years**

Quick: What are the most commonly used adjectives when describing the $3.8 trillion municipal-bond market?

If you said, "sleepy," or "boring," you win.

Over the last three weeks, it has lived up to that reputation, with yields on 10-year AAA municipal bonds moving exactly one basis point, to 2.49 percent from 2.48 percent. The difference between the daily high and low yield over that period is nearly as minuscule — a range of a mere 2.6 basis points, a difference that amounts to about $26 on a $100,000 investment. The price volatility over the past 20 days is the lowest since mid-2015, according to data compiled by Bloomberg.

Treasury yields haven't moved much either since Valentines Day, just 3 basis points. But there's been a 15 basis point difference between the three week high of 2.95 percent on Feb. 21 and the 2.81 percent low on March 1.

So why has trading municipal bonds become about as exciting as working as the Maytag repair man?

New offerings of long-term, fixed-rate state and local government debt is down 40 percent, compared with last year, because municipalities rushed to market in December before the federal tax overhaul sharply limited their ability to refinance debt. The issuance drought helped support the market amid the selloff in January triggered by speculation that the Fed will raise interest rates more aggressively than expected, leaving munis with a smaller loss than Treasuries so far this year.

"The lack of supply has kept the market from sort of falling off a cliff," said Nicholos Venditti, who oversees $11.5 billion of municipal bonds at Thornburg Investment Management in Santa Fe, New Mexico.

What's more, retail investors, who drive the muni market, haven't been spooked — yet — by the losses showing up in their month-end statements. Munis lost 1.5 percent through the end of February, their worst start to a year since the 2008, during the early pangs of the credit crisis.

The market may get more volatile as mom and pop investors start selling and signs emerge that banks and insurance companies are gradually paring tax-exempt bonds and buying taxable bonds instead because corporate tax cuts have made tax-exempt debt less attractive, Venditti said.

Add a pick-up in issuance by municipalities and that could lead to a bearish market, Venditti said, making his job — and maybe yours — more interesting.

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