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The Big Exodus From Muni-Bond Funds Isn't Cause for Concern Yet.

- **The $830 million pulled last week was most since January 2017**
- **Outflow probably caused by tax payments, not sentiment shift**

Don’t get too worried just yet that investors are about to begin stampeding out of the municipal-bond market.

Investors pulled about $830 million out of state and local government bond mutual funds during the week ended April 11, the biggest outflow since January 2017 and the second straight week of investors pulling cash, according to the Investment Company Institute. Municipal analysts and investors have fretted over the possibility that the year’s poor start could cause a prolong run of outflows, posing a potential threat to a market that’s already delivered negative returns this year.

Given that the market has stabilized — and eked out gains last month — Barclays Plc thinks the outflows will be short lived, said Mikhail Foux, head of municipal strategy for the bank. Foux said the outflow was probably driven by investors selling their holdings to pay their tax bills.

Despite the last two weeks, municipal funds have still largely drawn in cash this year, said James Iselin, managing director at Neuberger Berman Group, in an interview. And new deals his firm has bid on over the last two weeks have been “many, many times” over-subscribed, showing that demand for municipals is still strong, he said.

“Usually what drives outflows in the muni market is a rapidly rising rate environment, and to the contrary, since that big period of volatility at the end of January and February, rates have actually settled down a lot,” Iselin said. “I don’t see that as a catalyst.”

But even if it is the result of raising cash to pay tax bills, the outflow may still continue this week. The Internal Revenue Service said it would give taxpayers an extra day to file their returns electronically after a computer malfunction disrupted the agency’s website.

“I think it will go back to normal,” said Chris Mier, chief strategist at Loop Capital Markets, predicting that the funds will go back to drawing in around $750 million a week. “The fact that we are in a positive cash flow mode given the amount of change in the environment is very favorable.”

Bloomberg Markets

By Danielle Moran and Amanda Albright

April 18, 2018, 10:28 AM PDT

— With assistance by Martin Z Braun

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