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Muni Investor Redeems Bond ETF Amid Summer Supply Drought.

- **Trader moves about 1.2 million shares worth $135 million**
- **Muni ETFs can serve as convenient 'new-school' bond dealers**

You might think the first outflow in months for an exchange-traded fund meant investors were calling it quits. You might be wrong.

In the case of the $9.9 billion iShares National Muni Bond ETF, or MUB, one trader's move may simply signal how desperate for municipal bonds some people are these days.

In the summer months, the muni bonds maturing or being "called away" — redeemed early — often outweigh supply, making it harder for investors looking to put cash to work. But some MUB holders can redeem their shares and receive the underlying bonds themselves, rather than cash.

Trading volume in MUB soared to a record on Monday, fueled by one massive trade shortly before noon, when an investor sold about 1.2 million shares worth $135 million. The fund then saw an outflow of over $65 million, the first since May, as the investor likely redeemed shares of the ETF to directly hold the underlying bonds, according to Patrick Luby, municipal strategist at CreditSights.

"In the currently constrained market for blocks of well-structured bonds, redeeming ETF shares can be an efficient and quick means of establishing a large and well diversified position," Luby said in a note Tuesday.

Bondholders are set to receive about $36.8 billion from muni debt that will be paid off over the next month, about $27.8 billion more than governments and other issuers are planning to sell, according to data compiled by Bloomberg as of July 30. This "has put investors in competition for the limited supply of well-structured bonds to replace the ones that have been redeemed," according to Luby.

"In many ways, bond ETFs are new-school bond dealers and these trades are very popular because they can be cheaper and more convenient than doing it in the open market," said Bloomberg Intelligence analyst Eric Balchunas.

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— With assistance by Tom Lagerman

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