
Muni-Bond Manager Buys Treasuries as Rally Erodes the Tax Breaks.

- **AllianceBernstein sees value in Treasuries in lieu of munis**
- **“Very happy” their strategies allow this type of flexibility**

Terrance Hults, a portfolio manager at AllianceBernstein Holding LP, is paid to invest money in state and local government bonds. But lately, he’s been moving into Treasuries instead.

That’s because the clamor for munis that mature in two years or less — driven by rising interest rates — has pushed the securities to their most expensive level relative to Treasuries in nearly four years. The dwindling yield has wiped away much of the tax benefit that investors get by buying state and local debt instead of other securities.

As a result, AllianceBernstein., with $40 billion in municipal bonds under management, has shifted some of cash in mutual funds and privately run accounts into short-dated Treasuries instead of municipals.

“We’re very happy that most of our strategies tend to have flexibility to not only invest across different areas of the muni market but also, when it makes sense on an after-tax basis, to own a modest amount of taxable securities,” Hults said. “In certain short maturities, municipals in general are expensive, so we think it makes sense to take advantage of that flexibility to have a small position in Treasures in the very short end.”

Yields on two-year tax-exempt bonds have declined to about 1.6 percent, some 62 percent of what investors receive on similarly dated Treasuries. That ratio, a key measure of relative value, has dropped 15 percent since May 31 and is only up slightly from the 60 percent hit late last month — the lowest since Sept. 2014.

The difference between after-tax yields on short-term Treasuries and tax-exempt municipals is “only a couple of basis points,” Hults said. Historically, that figure has been about 30-40 basis points, he said.

“You pick up liquidity to go into a small weight — for context, about a 5% weight in a top tax-bracket account — to go into Treasuries.”

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