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BlackRock, UBS Join Shift to Muni Market's Middle as Rates Rise.

- **More investors are saying to buy intermediate-dated bonds**
- **The shift comes after pullback from pricey short-term debt**

The hot new trade in the $3.9 trillion municipal-bond market is in the middle of it all.

Investors and strategists from BlackRock Inc., UBS Wealth Management and McDonnell Investment Management say investors in state and local debt should buy intermediate-maturity securities, such as those due in 10 to 15 years. The calls come after short-dated debt — a previously flocked-to haven for investors seeking protection from rising interest rates — was bid up to pricey levels by late July, only to since retreat.

"That part of the curve is interesting right now, where you can capture a lot of the steepness that exists in the muni market," said Neuberger Berman portfolio manager James Iselin, who favors bonds maturing between seven to 12 years.

Investors can pick up "meaningful" additional yield compared with short-dated debt, with top-rated tax-exempt bonds maturing in 10 to 12 years offering about 65 to 70 basis points more than two-year debt, he said in an interview.

BlackRock, which oversees $129 billion in municipals, is also shifting its weight toward that part of the curve and going out a bit longer. The firm favors buying municipals maturing between 15 to 20 years, said Sean Carney, head of municipal strategy.

"That is a preferential area for us," he said in an interview. BlackRock still uses a barbell strategy that allows it to have an allocation to the front end of the curve, Carney added.

The difference between short- and long-term yields has stayed larger on municipal bonds than it has for Treasuries for most of 2018 because investors have clamored for short-dated securities, pushing yields lower. At the same time, long-dated municipals have seen less demand from corporate buyers as a result of the tax-rate cut, which has helped to keep those yields higher.

Some investors say going out even longer on the curve is beneficial. Susan Courtney, head of the municipal-bond team for PGIM Fixed Income, said the firm favors longer maturities, such as 20 to 25 year debt, when the yields are adequate.

Municipal debt maturing in 22 years or longer has delivered a negative return of 1.8 percent this year, a steeper loss than other maturity group, according to Bloomberg Barclays indexes. Courtney said the firm is willing to buy longer debt because PGIM's view is that interest rates aren't likely to go much higher.

"It comes down to specific credits and where we think we're getting compensated for being longer," she said.

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