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Ten-Year Muni-Bond Yields Poised for Biggest Drop Since May 2017.

- **‘Almost a perfect storm for municipals to perform well’**
- **Equity-market turmoil has fueled drive into safe havens**

The muni-bond market is mounting a strong year-end finish.

The yields on top-rated, 10-year state and local government bonds have dropped each day since Dec. 14 and have declined to about 2.32 percent, down 0.23 percentage point since the end of November, according to Bloomberg’s indexes. That has put those yields on pace for the biggest monthly drop since May 2017 amid growing speculation that the Federal Reserve may pause or slow the pace of its interest-rate increases.

“It’s been almost a perfect storm for municipals to perform well,” said James Iselin, a portfolio manager at Neuberger Berman Group in New York. “In the last six weeks, risk asset volatility has picked up, you’ve seen flight to quality trade in Treasuries and we’ve rallied in a similar amount.”

The market has also been benefiting from a dearth of new bond sales, Iselin said. Very few deals came to market in the week leading up to the Christmas holiday and next to nothing has sold in the past three days, a trend investors expect to continue into January.

Duane McAllister, senior portfolio manager at Robert W. Baird & Co., said the biggest driver of the municipal market has been the rally in Treasuries, which set the baseline for the market. The recent gains have driven municipal bonds to a return of 1.2 percent this year.

“We are tethered to the Treasury market, when you’ve seen the kind of move in Treasury yields, municipals are going to come along for the ride,” he said.

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