Your New York Taxes Are Too High? Muni Bonds May Offer an Answer.

- **Wilmington Trust's Roth sees munis as 'tail risk' hedge**
- **Filers in high-tax states may shelter more income in munis**

One of the most banal-sounding investments for U.S. investors may be one of the best opportunities, at least according to Anthony Roth, chief investment officer of Wilmington Trust Investment Advisors.

Roth is referring to the $3.8 trillion municipal bond market, which he calls one of the few places where investors can find a haven from the risks buffeting the market, and an area he expects to "hold up really well if we go through a down cycle."

Another draw for wealthy investors: the opportunity for residents of high-tax states to shelter more income, now that state and local property and income tax deductions are capped at $10,000. Roth expects overall tax refunds in 2019 to exceed those of 2018 by some $60 billion, but notes that some people in high-tax states like California, Connecticut, New Jersey, New York and Massachusetts will find that they owe more than ever. That could increase demand for municipal bonds on the margin, Roth said.

Muni finances are generally strong, with supply limited over the past year and tax receipts pretty healthy, said Roth.

"If you're careful with credit research, it's not hard to find high-quality muni issuers that have a very low chance of defaulting through the next credit cycle," he said. "If we're at the end of the cycle, just keeping your money intact and having a real positive return is not a bad result." He recommends that clients buy bonds with maturities between three and five years.

Munis are also attractive as a way to hedge tail risk, said Roth, which he defined as the chance of a significant drop in equities, perhaps accompanied by a recession. He isn't forecasting either in 2019, but if something like that does come to pass, "munis will hold up quite well because municipal balance sheets are generally very strong at this time, much more so than corporates," Roth said.

The after-tax returns for high-net-worth investors would be about 3 percent. "In an environment where inflation is 1.9 percent over the long term, getting a real return of more than 1 percent with very little risk, in order to wait out the cycle until things improve — that is not uncompelling," said Roth. "There aren't many places to hide today."

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