
‘Boom, Another Billion’: Muni Funds Land a Year's Worth of Cash in Four Months

- **Funds have already seen $30 billion inflow, analyst says**
- **Bid to drive down tax bills pushes munis to pricey levels**

It’s only four months into 2019, and already mutual funds that invest in state and local-government debt have raked in more cash than they usually do in a year.

Investors added $1.1 billion to such funds in the week ended April 17, the fifteenth straight weekly influx, the Investment Company Institute reported Wednesday. That bumped the total to about $30 billion since January, more than they’ve drawn during any full year since 2012, according to an analysis of the data by CreditSights.

“It is just really, really impressive,” said Patrick Luby, a municipal strategist at CreditSights. “It’s not unusual to see the year start out with inflows as people rebalance their portfolios. But it’s been consistent. You see a dip one week, think it may start to slow down, but then boom, another billion.”

Analysts say the cash flood has been driven by individuals in high-cost states such as California and New York who saw their tax bills rise as a result of the $10,000 limit on state and local tax deductions, which was first felt when they filed their returns this year. That has enhanced interest in tax-free bonds as a way to drive down what they’ll owe.

The demand has helped drive municipal bonds to a 2.8 percent gain this year, twice the return on Treasuries, even before the tax breaks are factored in, according to Bloomberg Barclays indexes. And the yields on 10-year municipal bonds have dropped to around 76 percent of those on federal government debt, the lowest since at least 2001, indicating that the state and local securities have grown historically pricey in comparison.

Matthew Gastall, executive director at Morgan Stanley Wealth Management, said the market is gradually accepting the possibility that the deduction cap won’t be changed anytime soon, if at all. As a result, he said munis have “rarely traded as strongly,” he wrote.

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