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Disappearance of $117 Billion of Muni Debt to Fuel Bond Hunt.

- **Market set to contract as more bonds are paid off than sold**
- **Scarcity has helped propel best start to a year since 2014**

A cash tidal wave is about to wash over the muni-bond market.

State and local governments are set to pay off $117 billion of debt from June through August, promising to add tailwinds to a market that's already off to its strongest start since 2014 as billions of dollars flows into mutual funds, according to data compiled by Bloomberg. The amount of bonds that will be paid off each month over the summer — when the lion's share of municipal debt matures — will far exceed the average $26 billion of new securities that have been issued each month so far this year.

The scarcity of new municipal-bond issues comes just as some investors are seeking out the securities as a way to drive down tax bills that were increased by the cap on state and local tax deductions. Mutual funds focused on municipal bonds have seen cash flow in every week since early January, leaving them picking up more in the first four months of 2019 than they usually do in a year, according to the Investment Company Institute's figures.

At the same time, the market has been contracting. Governments paid off debt last year at a faster pace than they sold it for the first time since 2014, according to Federal Reserve Board figures. The phenomena has continued this year, when about $111 billion of debt matured or was paid off early. Only $104 billion of new bonds have been sold.

"I don't believe that is going to turn around in the next couple of quarters," said Debra Crovicz, a managing director at Chilton Trust Co. who handles municipal-bond investments. "You have a lot of summer calls and coupon reinvestment and money going back into funds from maturities."

Bloomberg Markets

By Danielle Moran

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— *With assistance by Sowjana Sivaloganathan*

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