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Bank of America Says ‘No Way’ to Negative Municipal-Bond Yields.

- **State and local debt would have no tax advantages if so**
- **Bank analysts also ‘believe the U.S. can avoid negative rates’**

Bank of America Corp., the biggest underwriter of state and local government debt, isn’t worried that municipal-bond yields will turn negative, even if they do in other parts of the U.S. fixed-income markets.

Bond yields have been plunging fast, making it seem possible that American investors could actually wind up paying governments to lend them money — as is already happening in Japan and much of Europe because of the escalating trade war with China, concerns about slowing global growth and stock market volatility. The yield on 10-year Treasuries has dropped to about 1.55%, with those on tax-free debt about a quarter percentage point less.

But Bank of America’s municipal-bond strategists said in a report Friday that even in the “unlikely” event that taxable debt yields fall below zero in the U.S., those on tax-exempt securities will “stay positive in this cycle.”

“We believe the U.S. can avoid negative rates in general,” they wrote.

There’s a major reason why municipal-bond yields wouldn’t go negative, even if that happens to Treasuries: If yields drop below zero, there would be no tax benefits to buying the securities, the bank’s analysts said. That’s the major reason investors buy them, and without that, they’d likely buy taxable debt instead.

The analysts, however, do expect state and local bond yields to keep falling. They said they now anticipate that 10-year benchmark tax-exempt yields will drop to 1%. They currently yield about 1.23%, the lowest since at least 2011.

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