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Muni Bonds Go Wild. Could 1% 10-Year Yields Be Far Behind?

The insatiable demand for U.S. state and local government debt may face a big hurdle.

The $3.8 trillion U.S. municipal bond market, sometimes called a sleepy asset class, has been partying awfully hard lately.

Consider that investors poured $1.8 billion into muni mutual funds in the week through Jan. 29, the 56th consecutive week of inflows, according to Refinitiv Lipper US Fund Flows data. Then, on Jan. 31, the biggest high-yield muni exchange-traded fund, the VanEck Vectors High-Yield Municipal Index ETF, drew in $150.2 million, the largest one-day increase in assets since inception in 2009. The amount of state and local debt on the books of Wall Street banks has dwindled to the least since late 2014. Overall, the market returned 1.8% in January, its strongest month in six years.

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By Brian Chappatta

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