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Muni-Bond Market's Favorite No-Risk, Can't-Lose Trade Is Back.

- **Floating-rate yields jump above those on 10-year debt**
- **'It's the best buying opportunity of the year,' investor says**

The municipal-bond market's favorite can't-lose trade is back.

So called variable-rate demand obligations — which are virtually risk proof because they can be sold back at full face value to Wall Street banks as frequently as every day — are yielding 1.18%, more than fixed-rate municipal bonds that don't mature for a decade. And those yields have been steadily rising since mid-January, in contrast to the rest of the \$3.8 trillion municipal market.

The disconnect is the result of a frequently seen seasonal quirk: Because variable-rate debt can be sold so easily, and at 100 cents on the dollar, investors often unload it to raise cash to cover their annual tax bills. As a result, banks' inventories of the securities tend to build up, prompting them to reset interest rates higher to draw new buyers. The Securities Industry and Financial Markets Association's index, the floating-rate benchmark, surged more than 80 basis points last April to as much as 2.3%, the highest since the 2008 credit-market collapse.

This year, even payouts not far above 1% may still be enticing at a time when yields are hovering near the lowest since the 1950s. Barclays Plc strategists led by Mikhail Foux last week flagged them to clients.

The yields have room to move even higher as the tax filing deadline on April 15 approaches, because high-net worth investors tend to wait until the last few weeks to liquidate their portfolios, said Kristian Lind, a managing director at Neuberger Berman Group. He said investors should hold the securities until yields hit a peak around March and April and then re-deploy their cash elsewhere.

"The market is basically on sale for all of March and April," Lind said. "It's the best buying opportunity of the year for the front-end of the yield curve."

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