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Investors Run to Municipal Bond ETFs for Safekeeping.

Fixed-income investors are placing more attention on municipal bond ETFs, with muni bonds rallying and yields closing in on four-decade lows, as coronavirus concerns push more into the munis market.

For instance, the Vanguard Tax-Exempt Bond ETF (VTEB A-) has attracted $750 million in net inflows and iShares National Muni Bond ETF (MUB A+) brought in $780 million in inflows year-t--date, according to ETFdb data. VTEB tracks the Standard & Poor's National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. MUB seeks to track the investment results of the S&P National AMT-Free Municipal Bond Index, which also measures the performance of the investment-grade segment of the U.S. municipal bond market.

As fears of a spreading coronavirus intensified this week, investors shifted over to munis and other safe-haven fixed-income assets. Consequently, the S&P Municipal Bond Index experienced its biggest one-day gain in 20 months on Monday, the Wall Street Journal reports. A daily gain of about one-third of a percentage point has only occurred five times over the last three years.

"Fear is present and investors are taking some risk off the table," Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management, told the WSJ. "That de-risking could mean [they buy into]cash, Treasurys or munis."

The sudden spike in demand for safe-haven bets dragged bond yields to unprecedented low levels. For instance, yields on high-quality, tax-exempt 30-year municipal bonds dipped to 1.627% Monday, or 46% lower than in February of last year, according to financial analytics company ICE Data Services' Muni Yield Curve. Bond yields have an inverse relationship to prices.

Daniel Berger, senior market strategist at Refinitiv, believed that "there's no end in sight" to low muni yields.

The lower yields have even caused some to take on riskier bets in search of more attractive payouts. For example, the VanEck Vectors High-Yield Municipal ETF (HYD A-) attracted $407 million in net inflows so far this year.

Yields on munis have been steadily falling with bond prices rising even before the coronavirus hubbub. After the 2017 tax law changes, demand for tax exempt munis became more attractive in response to caps in the federal deduction for state and local taxes, especially among more high-tax states. The tax law also diminished supply due to new limits on when governments can issue tax-exempt debt.

ETF Database

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