Bond Case Briefs

Municipal Finance Law Since 1971

Rush to Invest in Municipal Debt Pushes Yields to Record Lows.

Municipal-bond yields are hitting 38-year lows due to investors' coronavirus concerns driving up demand in the $4 trillion muni market.

Fears of the coronavirus's impact on global markets led to a stock selloff on Monday and Tuesday. Investors flocked to munis and other fixed-income investments for stability. The S&P Municipal Bond Index continued to climb Tuesday after logging its biggest one-day gain in 20 months Monday. A daily gain that big—about one-third of a percentage point—has occurred only five times in the past three years.

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

The new wave of demand Monday pushed bond yields to once-unheard-of levels. Yields on high-grade tax-exempt 30-year municipal bonds fell to 1.594% Tuesday, 47% lower than in February of last year, according to financial analytics company ICE Data Services' Muni Yield Curve. Bond yields fall as prices rise.

Daniel Berger, senior market strategist at Refinitiv, said "there's no end in sight" to low muni yields. The firm, which tracks state government-bond yields going back to June 1981, showed its lowest yields on record Wednesday for the second day in a row.

Lower yields mean less income for investors and some of them are seeking out less creditworthy borrowers in an effort to find higher returns. At the same time, the falling yields reduce borrowing costs for municipal-bond issuers and make borrowing easier for less creditworthy governments and nonprofits.

Muni-bond prices were climbing steadily even before coronavirus headlines spooked investors. Changes in the 2017 tax law drove up demand in high-tax states by capping the federal deduction for state and local taxes, making tax-exempt munis more attractive. At the same time, the tax law reduced supply by placing new limits on when governments can issue tax-exempt debt.

Quick moves into or out of municipal-bond investments have become easier to execute in the past decade with the proliferation of muni mutual funds and exchange-traded funds, which now hold $852 billion worth of munis, according to the Federal Reserve. Municipal-bond funds reported net inflows of $96.5 billion last year, a 28-year record, according to Refinitiv, and $1.8 billion in inflows for the week ended Feb. 19, the most recent data available.

Fund managers working overtime to field calls from concerned investors expect that number to go up this week.

"There's positive correlation with volatility and how many hours we work here," said Justin Pfaff, municipals product manager at investment management company Nuveen.

The Wall Street Journal

By Heather Gillers

Updated Feb. 26, 2020 4:16 pm ET