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Muni Bonds Plummet as Few Markets Are Immune From Selloff.

The S&P Municipal Bond Index posts its biggest one-day drop in more than a decade

Municipal-bond prices plunged to record lows Thursday amid a selloff in stocks and other assets, as investors dumped even gold-plated debt.

Yields jumped 58% from Tuesday through Thursday on 30-year bonds, according to Refinitiv, the biggest three-day increase since the firm began keeping records in 1981. The S&P Municipal Bond Index experienced its biggest one-day drop in more than a decade. Bond yields rise as prices fall.

As recently as Monday, the municipal market seemed like a refuge from stock volatility. With fears growing over the spreading coronavirus, investors scooped up munis, pushing yields to a nearly 40-year low.

But prices fell drastically this week after investors pulled $1.8 billion from muni-bond mutual funds over a two-week period. The outflows, which were the first in more than a year, reflect mounting investor concern that the coronavirus will drag down even stable investments such as taxpayer-funded roads and sewers. They may also signal the unraveling of a hypercharged base of buyers that crowded into tax-exempt bond funds to escape the consequences of the 2017 tax law and pushed prices to record levels.

“Today was the weakest day on record for the muni-bond market and prices fell faster than they ever have before,” said Matt Fabian, a partner at Municipal Market Analytics. “To the upside, we’ve gotten rid of some of the pricing excesses of 2019.”

Amid the selloff, the commonwealth of Massachusetts decided to wait for the market volatility to subside. Earlier in the week, it had been planning to do a $268 million bond deal on Thursday to fund its capital plan, but public officials pulled the deal Thursday morning.

On Wednesday, when the deal was still expected to go forward, the state had added a disclosure to its bond prospectus saying the coronavirus could adversely affect the state’s economy.

“There is no way to avoid financial impact,” said State Treasurer Deborah Goldberg.

Aggravating the volatility are fundamental changes in municipal-bond ownership over the past decade. There are far fewer buy-and-hold investors while mutual and exchange-traded funds have added $353 billion in the decade ended Dec. 31, an 82% increase. If investors decide to flee from those funds, they can exhaust their cash on hand and end up selling bonds at a discount.

Broker-dealer Headlands Tech Global Markets received more than 50,000 requests for bids on muni bonds per day on Wednesday and Thursday, compared with a typical 15,000, said Chief Executive Officer Matt Andresen. The number of firms that bid on each request, which typically averages around eight, has fallen to three, he said. Often, Headlands is the only bidder.

Adam Weigold, who manages $5.5 billion in municipal-bond mutual funds at Eaton Vance, said he was surprised to see so many funds selling bonds in response to outflows, rather than using cash to reimburse investors.

“I would have thought there would have been more cash out there,” he said.

Several market professionals said the large number of traders working from home as part of efforts to mitigate community transmission of the virus may have further reduced liquidity in the market because their response times may have been slower without access to multiple screens and sophisticated trading floors.

Not everyone had a bad day. Mr. Weigold, encountered a seller asking 103 cents on the dollar for bonds that Eaton Vance’s analysts had pegged at 110 cents. He ended up taking a pass, he said, when the seller wouldn’t agree to lower the price to 101.

“For me, this is a great opportunity,” Mr. Weigold said.

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By Heather Gillers

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