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Muni Bonds Plummet as Virus Fallout Throws Market into Freefall.

- **10-year municipal-bond yields climb as much as 24 basis points**
- **Municipals are getting 'mauled' as retail investors pull back**

For days, there was one corner of U.S. financial markets that seemed oddly impervious to the turmoil wreaking havoc this month: the municipal-bond market.

On Wednesday, the comparative calm in the safe haven of the state and local debt market came to an end as prices were poised for their worst drop in at least nine years.

Yields on 10-year benchmark state and local government debt jumped 22 basis points to 1.15% as of 1:00 p.m. Wednesday, heading for the biggest one-day leap since Bloomberg's records began in 2011. Yields on long-dated bonds rose 24 basis points.

"The muni market is getting mauled," said Matt Dalton, chief executive officer of Belle Haven Investments, which oversees $11.5 billion of municipal debt. "Hedge funds are dumping yield, flows are negative as everyone wants to re-balance portfolios toward equities, which we believe may be too soon to do that."

The financial turmoil caused by the worsening outbreak of the coronavirus sent yields on the safest assets to new lows earlier in the week as global equities tumbled. But after stock prices stabilized, municipal-debt prices slumped Tuesday, and accelerated the drop Wednesday, erasing earlier gains. The swings struck the new issue market, where some state and local borrowers shelved planned deals, indefinitely postponing offerings that had been scheduled for months.

"Obviously, we had not anticipated the market volatility due to the coronavirus, oil situation, and the FOMC's emergency rate cut when our original sale date had been set," said Mark Mathers, the chief financial officer of Washoe County School District in Nevada, which postponed a $215 million sale set for this week.

The spreading virus poses risks to sectors like high-yield municipals, which have seen spreads widen, and airports, which are at risk of people avoiding flights. Some investors may be trying to sell certain securities that could be impacted by the virus. VanEck Vectors High-Yield Municipal Index ETF, the biggest high-yield muni ETF, has declined 8.5% since Friday.

Municipal-bond mutual funds lost $250 million during the week ended March 4, ending 60 consecutive weeks of inflows to tax-exempt funds, according to Refinitiv Lipper US Fund Flows data. Jeffrey Lipton, a managing director at Oppenheimer & Co., said he wouldn't be surprised to see another week of outflows when they report on Thursday.

"As long as the volatility continues and the uncertainty with Covid-19, I think we can expect to see some continued credit concerns, credit pressure — which obviously flows from high-yield upward to even the higher-quality credits," Lipton said.

The state and local government sell-off marks a sharp reversal from much of the last 14 months, when demand for state and local government debt seemed insatiable. Record inflows drove down bond yields even on the riskiest segments of the market and some investment-grade bonds in high-tax states traded better than AAA-rated benchmark yields.

A New York City general-obligation bond that matures next year traded as high as 0.95% yield Wednesday, more than double the yield on a one-year Treasury bond.

Belle Haven Investments's Dalton said that the market's bid-wanted lists are "massive in terms of line items" and many securities aren't receiving any interest.

"The last time I saw deals like we are getting today was when Meredith did her 60 Minutes interview," he said referencing, Meredith Whitney, the financial analyst who erroneously predicted in December 2010 that the coming year would see a wave of municipal defaults.

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