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Muni Market Goes Topsy-Turvy. The Federal Reserve Has Stepped In to Help.

It’s not every day that closed-end municipal bond funds with relatively low leverage start trading at a 10% discount to their net asset value. For anyone who has watched markets over the past week, however, it is clear that these aren’t normal times.

Investors fled municipal bond funds en masse during the week ended March 18, with the $12.2 billion outflow setting a record.

That rush into cash caused the muni market’s yield curve to invert—in other words, it pushed short-term municipal bond yields above longer-term yields, as managers tried to sell more-liquid securities. The benchmark bond yield for a AAA-rated three-month muni bond, for example, climbed by 0.6 of a percentage point to 2.84% by early Friday. The five-year AAA bond, in contrast, was yielding 2.66%.

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Barron’s

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