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Municipalities Face Short-Term Cash Crunch, Pushing Up Borrowing Costs.

The municipal bond market may be exempt from taxes, but it hasn't been sheltered from a record-setting investor cash grab.

A muni-market selloff that started last week is snowballing, pushing up state and local authorities' cost of borrowing over a one-week period. Investors pulled $12.2 billion from municipal bond funds over the week ended March 18, the most of any week on record, according to Lipper. The second-largest outflow was $4.5 billion.

Interest rates have spiked to 5.2% on floating-rate municipal securities called Variable Rate Demand Notes, or VRDNs, up from 1.3% last week. That short-term rate—the cost of borrowing for one week—was higher than municipalities' longer-term rates. The 30-year benchmark municipal bond yield was 3% on Thursday afternoon.

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Barron's

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