
Record Exodus From Muni-Bond Funds Fuels Worst One-Day Rout.

- **Outflow is nearly triple previous record of $4.5 billion**
- **Pullback comes as sell-off sends yields surging at record pace**

Investors pulled a record $12.2 billion out of municipal-bond mutual funds in the week ended Wednesday on concern about the widening impact of the coronavirus pandemic, triggering waves of forced selling by money managers that sent yields surging at the fastest pace ever.

The exodus, almost three times larger than the previous record, was the third straight weekly outflow as fears over the pathogen tipping the U.S. economy into recession deepened. Investors also yanked a record $5.3 billion out of high-yield municipal bond funds, which hold securities most at risk from a worsening economy. Last week, those funds lost $1.7 billion.

But even the safest municipal securities have been punished, creating deep liquidity strains as buyers run for the exits en masse as the virus-induced slowdown threatens to hammer public transit systems, cities, airports and others that borrow in the $3.9 trillion market. On Thursday, benchmark 30-year yields soared by 50 basis points to 2.99%, matching the record-setting jump from a week ago.

"It's been an incredible reversal in a short amount of time," said Brian Musielak, director of fixed-income portfolio management at Commerce Investment Advisors, who said he was shocked by the size of the outflow and the day's performance.

Fear-driven sell-off creating liquidity strains

Investors earlier this month began pulling money out of municipal-bond mutual funds for the first time in more than a year, ending a streak of 60 consecutive weeks of inflows that was just four weeks shy of tying a record. The individual buyers who are the municipal market's biggest investors often move in unison, pouring in cash when prices are rising and pulling it out when they decline.

The turmoil caused by the coronavirus pandemic has been widespread. Investors withdrew an unprecedented $35.6 billion from U.S. funds that buy up investment-grade debt, according to Lipper. The Down Jones Industrial Average has fallen 31% in the last 30 days and all but wiped out gains made since President Donald Trump was elected in November 2016.

Nuveen, one of the biggest muni bond fund managers, put $740 million of its municipal portfolio up for sale Thursday, according to people familiar with the matter. The sale comes as mutual funds are under heavy pressure to cover withdrawals.

The rout marks a dramatic reversal for a market where prices reached record highs earlier this year as a steady flood of cash poured in. That dynamic has abruptly changed as investors retreat, creating a liquidity crunch just as analysts are now trying to gauge how the virtual shutdown of the economy will ripple down to local governments. The concerns have effectively locked states and cities out of the financial markets, with Wall Street banks shelving all the biggest bond offerings because of the turmoil.

“It’s amazing how things turn on a dime,” said Jeffery Timlin, a managing director at Sage Advisory Services, who said just a month ago there weren’t enough bonds to meet demand. Now he said mutual funds and exchange-traded funds have become “forced sellers.”

“It creates a negative feedback loop,” he said. “Some selling begets more selling begets more selling. Everybody is scared and nobody wants to buy.”

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