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In Wreckage of Muni Market Crash, Brave Investors Eye Bonds at 90% Yields.

- **Forced selling wreaked havoc with traditional gauges of value**
- **Even bonds backed by Treasuries slid in worst rout in decades**

By some measures, the municipal-bond market is full of screaming buys for anyone brave enough to wade in.

Take a note issued by New York's Metropolitan Transportation Authority that's due in about two months. It traded among securities dealers at yields as high as 11.2% on Friday and hit 90% the day before that — an unheard of payout for securities that not long ago yielded 0.6%.

Bonds repaid with Ohio's share of the 1998 tobacco-company settlement that changed hands for as much as 116 cents on the dollar last month are now going for around 74 cents. Even so-called pre-refunded debt — which is virtually risk free because it's paid off with federal government bonds that are held in an escrow account — are yielding about 2.8%, more than triple 10-year Treasuries.

"At these levels there's value in the market," said Lyle Fitterer, co-head of municipal investments at Baird Advisors, who was referring to broader market conditions. "You can find some very good muni credits trading at levels you haven't seen in a decade."

The record-setting sell-off that raced through the market until this week has left broad wreckage in its wake, in part because of unprecedented uncertainty about how badly local governments, hospitals and public transit systems will be hurt by an economy that has virtually ground to a halt in a matter of weeks. States and cities have pleaded with the federal government for hundreds of billions of dollars in aid, showing how severe they expect the hit to be as tumbling stock prices, shuttered stores and mass layoffs cut deeply into their tax collections.

But as mutual-fund managers unloaded whatever they could to raise cash, some bonds that may have very little risk to the coronavirus shutdown tumbled as well. Even top-rated, two-year municipal debt is yielding 934% what similarly-dated Treasuries do, up from as little as 56% just in January.

Kyle Gerberding, director of trading for Asset Preservation Advisors, is focusing on the pre-refunded bonds since the Treasuries that backstop them essentially guarantee they won't default. "That's the biggest no-brainer trade," he said.

Wilmington Trust this week said it was moving taxable and tax-exempt accounts to an overweight position in investment-grade municipal securities after the spate of "indiscriminate selling."

Dan Scholl, head of municipal fixed income at the firm, said the company is looking at the pre-refunded bonds as well as variable-rate securities, which saw one gauge of yields soar to the highest since 2008 as investors sold them aggressively to get cash. Because those securities are backstopped by banks, they can always be resold at 100 cents on the dollar.

Scholl said he is also focusing on large states and cities whose bonds have cheapened amid the sell-off. They're trading at "very attractive levels," he said.

No state government has defaulted since the Great Depression, and local government bankruptcies remained extremely rare during the last recession. Yet some states have seen their yields jump sharply this month. Illinois's 10-year general-obligation bond yields have more than tripled to nearly 6%, three full percentage points more than the benchmark, according to Bloomberg's BVAL indexes.

Of course, the key question facing such buyers is whether the rout is over or there's more pain ahead, and the market is highly dependent on individual investors who have a tendency to keep pulling out when losses pile up. Furthermore, some governments, including Illinois, were already contending with deep pension shortfalls before stock prices tumbled this year.

On Tuesday, though, the municipal market gained for the first time in over two weeks after the Federal Reserve included some of the securities in its emergency lending program and Congress made progress toward enacting economic stimulus legislation. Yields on some of the shortest-dated securities slid 18 basis points, showing that some of the liquidity strains that drove the sell-off have eased.

Samuel A. Ramirez & Co. said on Monday that it's tough to accurately value municipals or any asset class currently given the volatility.

"What is now considered 'cheap' may not be when the dust settles," the company wrote in a report to clients.

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