

Bond Case Briefs

Municipal Finance Law Since 1971

Muni Funds Under Pressure From TOB Deleveraging.

Summary

- This week has brought echoes of the financial crisis in the municipal bond market with a number of fund deleveragings.
- Patchy liquidity and a worsening macro picture makes us cautious in the near term. However, there are also positive signals for the medium term.
- For investors wishing to adopt a more cautious stance without leaving the market, we like open-end funds, term CEFs, and taxable muni CEFs.

Here we go again. In a stark repeat of the financial crisis era events, a number of municipal funds have begun to deleverage. At focus is the unwinding of tender option bonds - a financial structure that allows municipal funds to raise leverage and increase fund payouts. According to Bloomberg, about 75 TOBs with \$1.2bn of bonds liquidated last week.

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