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How the Muni Market Became the Epicenter of the Liquidity Crisis.

A concentration of power and risk has resulted from a fundamental shift in how municipal bonds are bought and sold

The coronavirus triggered a liquidity crisis in municipal bonds, but the volatility that resulted has been brewing for a decade.

Desperate sellers across most markets sold assets at deep discounts last month as the spreading new coronavirus left investors fearful and hungry for cash. Perhaps no investment flipped from coveted haven to spurned hot potato as quickly as municipal bonds.

Prices have started to recover as U.S. lawmakers authorized the Federal Reserve to prop up a wide swath of state and local government debt. But the marketwide breakdown exposed a new vulnerability in the nearly $4 trillion municipal market: a concentration of power and risk resulting from a fundamental shift in how muni bonds are bought and sold on Wall Street and on Main Street.

Continue reading.

The Wall Street Journal

By Heather Gillers and Gunjan Banerji

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