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[Muni Market Rout Returns With Record Exodus Fueling Cash Strains.]

- **Market sees massive volatility as pandemic creates uncertainty**
- **'Trend seems to be turning' as optimism fades, investor says**

Municipal-bond prices tumbled sharply, retreating from the rally triggered last week by the federal government's more than $2 trillion stimulus plan, as the growing economic shutdown to stem the coronavirus deals a deep financial hit to states, cities and other agencies that borrow in the $3.9 trillion market.

The drop underscores the unprecedented volatility that has whipsawed the state and local government debt market for the past three weeks, when a record exodus from municipal-bond mutual funds triggered rounds of forced selling by managers who needed to raise cash. That sell-off through mid-March was the steepest in at least four decades, only to abruptly shift course last week when prices rallied as the stimulus program extended the Federal Reserve the power to step in if another liquidity crisis breaks out.

On Wednesday, some yields surged as much as they did during the deepest one-day sell-offs that shook the market in March. Those on top-rated 30-year bonds surged 50 basis points to 2.53%, while 10-year yields rose 31 basis points to 1.74%. Those on securities due in six months climbed 11 basis points to 1.16%.

The jump comes after individuals pulled record amounts from municipal-debt funds in the two weeks through March 25 after the market was battered by losses. Such outflows tend to persist for weeks during down markets and the price drop this week may be driven by fund managers who need to raise cash to meet redemptions.

Dave Isaak, head trader at Isaak Bond Investments, said the market is veering right back to where it was two weeks ago. The number of bonds being put out for bids remains elevated, with the amount that investors were looking to sell on Bloomberg's platform alone rising to $1.9 billion on Tuesday. He said the "difficult news" surrounding the pandemic is pushing investors back toward only the safest securities.

"It's a liquidity squeeze of some sort again," he said.

High-yield bonds were especially hard hit during the sell-off, losing 11% through the end of March despite last week's rebound, and some slid Wednesday. That niche includes debt backed by airlines, nursing homes, convention centers and projects like the American Dream shopping mall in New Jersey that are being affected by the swift shutdown to much of the nation's economy.

As the human toll rises and federal and state officials warn of longer shutdowns, investors have a renewed focus on the pandemic's impact on almost all municipal bonds, said Jason Ware, head of institutional trading at brokerage 280 CapMarkets.

“You have to start looking at the trickle down effect for what all this means for redevelopment projects, conventions centers, hospitals, property taxes, foreclosures — your mind can go in so many different directions,” Ware said. “We need the time-frame of this coronavirus and the effect of the shutdown to be shorter, otherwise you’re going to continue to see more weakness.”

Puerto Rico’s sales-tax backed bonds, which are among the most actively traded by high-yield municipal funds, dropped to about 89 cents on the dollar Wednesday from 96 cents Tuesday. Ohio debt backed by the state’s tobacco-settlement payments, whose prices swung wildly in last month’s rout and recovery, slid to 84 cents from 92 cents, according to data compiled by Bloomberg.

Daniel Solender, head of municipals at Lord Abbett & Co., said some money had started to wade back into the market last week as it rebounded. But he said the sentiment seems to have grown more negative this week, making it difficult for new deals to price.

“The points of view are so volatile — we have to keep reassessing the market because the sentiment keeps changing,” he said. “The trend seems to be turning. There has definitely been some outflows this week and because of that its hard to get investors to commit to the new deals.”

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By Danielle Moran, Amanda Albright, and Martin Z Braun

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