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Rich Muni Buyers Piled In During Record Crash, Reaping Big Gains.

- **Citi says net buying by individuals hit $920 mln on March 20**
- **Bank says it was the biggest such buying spree since 2008**

When the little guys were fleeing for the exits of the municipal-bond market, it appears that the rich were piling in.

On March 20, at the height of the worst sell-off in at least four decades, purchases of state and local government bonds with maturities of at least 2 years and in blocks of $1 million of less — a proxy for buying by wealthy individual investors — exceeded sales by $920 million, according to Citigroup Inc. Such buying hadn't outpaced selling by that much since the credit crisis of 2008, the bank said.

"It was almost off the charts in terms of retail net buying," said John Heppolette, Citigroup's head of municipal markets and finance. "We've seen it in each of the past crises, as bond funds and other investors sell, munis get cheaper, and eventually high net worth comes in opportunistically."

The fear-driven crash provided brave investors a rare chance to scoop up even the safest tax-exempt bonds at unusually low prices, locking in higher yields until maturity.

In the midst of the sell-off, 5-year AAA rated bonds were yielding 6.5 times more than comparable Treasuries. New York City water authority bonds, callable in 7 years with a AA+ rating, were sold to a customer at a 4% yield — 3.5 percentage points more than five-year federal government debt. Metropolitan Transportation Authority bonds backed by Treasuries maturing in 2027 traded at a 2.4% yield, 2 percentage point more.

"All of a sudden they saw rates on individual bonds that they probably aren't going to see in years," said John Bagley, the Municipal Securities Rulemaking Board's chief market structure officer.

The steep price drops were set off by an unprecedented stampede out of municipal-bond mutual funds, which saw almost $40 billion withdrawn in two weeks in March alone, according to the Investment Company Institute's figures. With fund managers forced to dump securities to raise cash, yields on 10-year benchmark municipal bonds surged by nearly a full percentage point in two days, an extremely large jump for securities that typically move a few basis points a day if at all.

Less well-off mutual-fund investors tend to focus on share prices and sell as a group when prices fall. They're also sensitive to what analysts call headline risk, or bad news stories that undermine the market's perception as a haven.

Wealthy investors who buy individual bonds for their own accounts may be less likely to sell since they tend to focus on a bond's coupon and getting their principal back at maturity, Bagley said.

In addition to purchases through brokers and wealth managers, the March buying shows how so-called separately managed accounts, which typically require an initial investment of $250,000 or more, are exerting more sway in the municipal market. There was an estimated $700 billion in such tailored accounts at the end of 2019, according to Citigroup, helping to make up for weaker demand from banks and insurance companies.

The buying last month has provided an immediate payoff, with prices surging back since Congress passed the $2.2 trillion stimulus plan and the Federal Reserve moved into parts of the municipal market to help ease the liquidity crunch.

The overall market has gained more than 8% since March 20, according to the Bloomberg Barclays index. But many bonds did even better. The New York water securities have since soared 16% from their low.

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