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Muni Market Stages New Sell-Off on McConnell, Supply Wave.

- **Tax-exempt bond prices drop as deals return, boosting supply**
- **Illinois, New York MTA are planning to sell debt next week**

The \$3.9 trillion municipal-bond market is locked in a slow-motion sell-off amid concerns about the financial damage the economic slowdown is inflicting on states and cities.

The securities have struggled to recover from a historic rout in March as buyers fled at the fastest pace on record, causing prices to tumble by the most in at least four decades. While the bonds rebounded after the Federal Reserve intervened in the market, investors are still concerned about the growing toll the slowdown is taking on the tax revenue of governments nationwide.

It didn't help that Senator Mitch McConnell last week said he would be open to states pursuing bankruptcy in lieu of Congress providing more federal aid to cover their deficits. While investment firms and officials like New York Governor Andrew Cuomo were quick to condemn his comments, it may have shaken the confidence of retail investors who dominate the municipal market by raising the specter that Washington will leave them to fend on their own.

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