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Biggest Muni Rally in Decade Drives Yields to Cusp of Zero.

- **One-year tax-exempt debt is yielding 0.05% in test of new lows**
- **Rally may test negative rates that Wall Street's ruled out**

Interest rates have fallen so quickly and so steeply in the $3.9 trillion municipal-bond market that states and cities can borrow virtually for free.

Even with the economic fallout of the coronavirus pandemic driving local governments toward what may be their biggest fiscal crisis in decades, a rally in the bond market is leaving yields flirting with zero.

That marks a dramatic shift from two months ago, when yields were surging as waves of panicked selling raced through Wall Street. Municipal securities are now headed toward their biggest monthly gain since 2009, driving yields on top-rated bonds due in 2021 to just 0.05%, down from as much as 2.8% in late March.

The massive move in part tracks the Treasury market, where yields had already been hovering near zero, said Jason Diefenthaler, director of tax-exempt portfolio management at Wasmer Schroeder. Short-term securities have also benefited from two Federal Reserve programs aimed at municipal debt, including one that could lend as much as $500 billion to governments facing budget shortfalls.

"It was just a matter of time," he said.

The drop marks a test of how low short-term rates can go — and whether they could flip negative. Firms including Bank of America Corp., the biggest underwriter, have dismissed the likelihood of that, since that would erase the tax advantages that are a principal reason for buying municipal debt instead of other securities like Treasuries.

Moreover, the individuals who are the primary investors wouldn't have much incentive to buy debt that doesn't yield anything, Diefenthaler said. He said that dynamic could prevent short-term yields from dropping much more.

Still, he added: "Anything's possible."

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By Amanda Albright

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