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Bond Investors Have Been Jumping Back into Muni ETFs.

The coronavirus pandemic has taken its toll on the municipal bond market as shutdowns and record unemployment cut down on business activity and the stable source of revenue, but investors have been jumping back into munis and related exchange traded funds.

Ten municipal borrowers defaulted for the first time in May and another 10 followed suit in June, the highest default rates for those months since 2012, when borrowers were still recovering from the 2008 financial crisis, the Wall Street Journal reports.

Many municipal borrowers are suffering from the negative consequences of a precipitous falloff in the collection of sales, income and hotel taxes, airport fees, and other revenues.

Nevertheless, investors are seeing a buying opportunity as many hunt for yields and look for the relative safety of bonds over equities. Since mid-May, investors have funneled $11 billion back into muni bond mutual funds, or over one-third the amount was withdrawn in March and early April, according to Refinitiv data.

Among the most popular muni bond ETF plays, the iShares National Muni Bond ETF (NYSEArca: MUB) attracted $1.4 billion in net inflows and Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB) brought in $595 million since mid-May, according to ETFdb data.

The inflows have continued unabated even as some government and nonprofit borrowers face financial problems. For example, universities, convention centers, student housing, senior living facilities, and some transportation projects face significant revenue disruptions, and those in trouble could fall into insolvency.

Despite these risks, Dan Genter, chief executive of Los Angeles-based RNC Genter, noted that many of his clients are shifting into municipal bonds to avoid the ongoing uncertainty and volatility spikes in the stock markets.

“The fire alarm has sounded, and people really need to go look at their bond portfolios,” Genter told the WSJ.

ETF TRENDS

by MAX CHEN on JULY 6, 2020