
Insurers Seen Boosting Muni Stakes as Yields Surpass Corporates.

- **15% of clients increased allocations to munis, DWS Group finds**
- **Taxable munis offer more yield than similarly-rated corporates**

Insurance companies appear to be stepping up their buying of American municipal bonds.

DWS Group, an asset-management firm, said a survey of its insurance company clients in the U.S., Canada and Bermuda found that 15% have increased their allocations to state and local government debt, compared with 5% that trimmed their share. The amount boosting their municipal-bond stakes was second only to the 25% of clients that increased allocations to investment grade corporate bonds. DWS and Greenwich Associates polled insurance-company clients with portfolios from $1 billion to more than $20 billion.

The increase comes as the Federal Reserve's interventions in the corporate market and a deluge of taxable sales by U.S. states and local governments is making muni debt subject to federal income taxes a better buy, said Matthew Caggiano, a municipal portfolio manager at DWS. Insurers can get bigger yields on munis even though they have higher ratings and much lower default rates.

Travelers Cos. boosted its municipal-bond portfolio by $1 billion in the second quarter to $32 billion, the insurer reported on July 23.

"Many taxable muni issuers are coming at wider spreads that similarly rated corporate bonds," Caggiano said.

Taxable muni issuance, including sales with corporate trading tickers, soared to $72.5 billion in the first half of 2020, more than triple the same period in 2019. States, cities and non-profits like hospitals and universities took advantage of tumbling rates to refinance older debt and to boost their cash reserves as the coronavirus lockdowns decimated their revenue.

The University of Maryland Medical Center sold $600 million of taxable bonds the week of July 13, in part to finance the construction on a new medical office building, parking garage and the conversion of two hospitals to freestanding medical facilities. Debt maturing in 20 years and rated A was priced to yield 1.73 percentage point more than Treasuries.

By contrast, last week candy-maker Mars Inc. priced $900 million of 20-year bonds with the same rating to yield 1.05 percentage point more than Treasuries.

The allure of the taxable municipal bonds has increased since March, when a panic in the markets led the Federal Reserve to pledge to buy investment-grade corporate bonds and even some of the highest-rated junk bonds. As a result, the extra yield that investors demand for investment-grade corporate debt has plunged to 1.3 percentage point from more than 3.7 percentage points in March, according to Bloomberg Barclays Indexes. By contrast, the spread on taxable municipal debt is 1.67 percentage point.

U.S. municipal debt is one of the safest investments. Since Arkansas failed to pay its debt almost 90 years ago, no U.S. state has defaulted. From 1970 through 2019, the average five-year annual default rate for municipal bonds rated by Moody's Investors Service was 0.08%. Corporate bonds, which have lower ratings, had a 6.7% default rate over the same period.

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