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Muni Defaults Surge, but Yields Don't Follow.

Even with coronavirus losses weighing on state and city coffers, investors are piling back into municipal debt

The coronavirus has dealt a harsh blow to state and local government finances. But the municipal bond market rolls on.

Yields there have hit their lowest level since 1982, reflecting a significant increase in bond prices, despite the largest run of municipal-bond defaults in nearly a decade.

The rally has been driven by dynamics new and old, ranging from the extraordinary efforts of the Federal Reserve to backstop the U.S. economy to the continued aversion of many voters to new municipal issuance. That resistance might result in borrowers missing out on one of the great issuance opportunities on record, at a time when many are being crushed by the falloff in taxes, fees and other revenues.

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By Sebastian Pellejero

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