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Rum Bonds, Ice Rink to Jolt Muni Market From Low-Yield Slumber.

- **Rum bonds, ice rink, toll roads and a proton center take stage**
- **Secondary market has been sluggish amid trader reluctance**

Even after three weeks of essentially zero movement in benchmark yields, the municipal-bond market is far from dull.

Municipal-bond investors have a chance in the coming weeks to bet on everything from the post-pandemic comeback of traffic on U.S. roads to whether Americans will stick to drinking Captain Morgan rum. The calendar of upcoming new-issue bond sales is bustling even as ultra-low yields aren't budging and trading has slowed.

Investors can get in on the comeback of toll roads with a $242 million Pennsylvania Turnpike Commission deal set to price Tuesday. Later this month, bond buyers can gamble on a foundation borrowing money for the acquisition of a proton cancer-treatment center in Oklahoma City, even though such facilities have had a poor track record in the municipal market. And the U.S. Virgin Islands is looking for investors willing to take a chance on the distressed territory's $944 million of bonds backed by excise taxes on rum.

Many of the bond sales — including borrowing for dormitories at the University of Central Florida, a California ice center where the San Jose Sharks hockey team practice and Yankee Stadium — are coming from borrowers hit hard by the economic fallout of the pandemic or those with low credit ratings. They are seeking to refinance their debt with super-low interest rates, secure funding ahead of the potential volatility caused by the 2020 presidential election, and to take advantage of investors' desire for higher-yielding debt.

"It's a new issue-driven marketplace," John Flahive, head of fixed-income investments at BNY Mellon Wealth Management, who added that the types of deals are keeping his team "away from boredom" even as the broader market slumbers.

It's a good time for states, cities and local government borrowers to tap the market as cash keeps pouring into mutual funds and interest rates have remained low, with ten-year AAA securities holding at 0.8% since Sept. 1. Those rates make refinancings especially attractive. For investors, it's a chance to find bonds that can survive the pandemic's recession but still offer higher yields.

Wall Street traders in the secondary market, Flahive said, are staying on the sideline given uncertainty over whether Washington will approve a new round of stimulus, as well as concerns over the election and credit issues caused by the coronavirus.

Dealers' net positions in municipals stood at just $9.4 billion on Sept. 9, compared with an average of over $15 billion since 2015, according to Federal Reserve Bank of New York data excluding variable-rate debt. In the primary market, monthly sales of long-term municipals have risen more than 16% in September to more than $32 billion, according to data compiled by Bloomberg.

Hilltop Securities strategist Tom Kozlik said in a Sept. 18 note that the uptick in debt sales is likely reflective of a traditional rush to the market before the election and wanting to take advantage of the low yields and high demand.

“The race is on for issuers to complete their financings before capacity or buying interest falls away,” he said.

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