

# **Bond Case Briefs**

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## **How the Muni Market is Responding to Uncertainty.**

Yahoo Finance's Alexis Christoforous and Brian Sozzi speak with Sylvia Yeh, Co-Head of Municipal Fixed Income at Goldman Sachs Asset Management, about the state of the municipal bond market.

### Video Transcript

ALEXIS CHRISTOFOROUS: One of the key sticking points in stimulus talks continues to be money to help state and local governments which could face severe funding shortfalls if Washington doesn't step in to help, and that could trickle down to the municipal bond market. With us now to talk about it is Sylvia Yeh, Co-Head of Municipal Fixed Income at Goldman Sachs Asset Management. Sylvia, good to have you here. So look, investors were withdrawing from their municipal bonds pretty aggressively at the height of the virus in mid-March. Has that calmed down now?

SYLVIA YEH: You know, good morning. Yeah, if you look back to March and consider where we are today- excuse me- some would think, did March ever really happen? What, we've rallied back in rates. We've rallied in credit. We had wide distribution with respect to investors in our marketplace. The market is open for business, both in two way secondary flow and new issue market is thriving. So market has come back, cautious, but coming back in action and, you know, excited for what is ahead.

BRIAN SOZZI: Sylvia, we've seen a lot, to your point, a lot of new issuance come to the market. What states are leading in terms of new issuance?

SYLVIA YEH: Yeah, I think they're spread all over the place, and it's not only from a state perspective, but sector and in particular taxable versus tax exempt, which I think is probably the bigger play. But the big states like New York, obviously, California, obviously, Illinois, there are lots of states that need, you know, flexibility in cash in different degrees and their assets in the market, big and small.

ALEXIS CHRISTOFOROUS: Sylvia, we've seen some state specific funds run in to problems during this pandemic. Just in the past few weeks or so, we've had Vanguard, Federated Hermes, and Bank of New York Mellon closing smaller at risk state specific funds. What's the larger implication to the muni market because of that?

SYLVIA YEH: Yeah, you know, sometimes when- well, first of all, I think have to look at the current environment that we're in and the interest rate environment that we're in, and it's very hard to get invested at these absolute low yields in particular for those states. So closing those funds doesn't necessarily need to be a negative perception for the market as we're seeing more cash go into the bigger better distributed and better diversified national funds. So I don't take that as a negative sign, just of repositioning and better opportunity.

ALEXIS CHRISTOFOROUS: OK, let's talk about those opportunities, because now we've got fewer state money market funds, so where can investors go for tax free ways to invest their cash during this time?

SYLVIA YEH: Yep, and it's funny. When we talk about investing in the muni markets, still very popular are the traditional mutual funds and money market funds. What we don't talk about a lot are the separately managed accounts where individuals are allowed to build their own portfolios. So investors have different ways to access the muni market, whether in fund format or individual portfolio format. The opportunity also comes in a bunch of different flavors. Typically, two levers that we can pull. It's going to be duration and credit. We have a third this year with the mix of supply.

From a duration perspective, if you look at the steepness of the yield curve right now, you can tell everyone is hanging out in the front end, because it's safer, it's easier, you can be more nimble, and by the way, we're going to be here for a bit. Let's be nimble for some opportunity that could come up. If you just dip a little bit further out on the yield curve going from, let's say, five years to a 10 or 11 year space, you're being compensated pretty significantly to extend. And if we had the Fed telling us that we're going to be here for a while, why not take a little bit and be compensated for it? So duration and a slight extension of something that we're discussing with clients, one of those levers.

The other lever can be credit, and it is credit. We talked about March to today, and I said that credit has rallied tremendously. Yes, and the high quality portion of our market, the triple As and double As, those strong quality names were the first to rebound. And then the high yield market, completely separate, a little bit tougher and struggled. But we had that triple B, and I would say single A area, that kind of was slow, because it was a bit of a tweener, and that mix actually provided and still provides extra yield and opportunity for clients too without a tremendous amount of risk. So from credit just dipping a little bit below the traditional high grade.

And then finally, what I think is interesting that we have this year that we haven't had in years past or for a long time are taxable munis. Issuance is up 230% ish, give or take, year over year. So that additional supply in our marketplace as it looks to get distributed as we look for that long term buyer base is going to take time to settle. And at the end of the day, it's what you take home as an investor that counts. So after you do your math, all things equal, tax exempt muni, taxable muni of the same flavor, you want to walk away with as many basis points as you can. That's been an interesting mix so that the key here in the message is to be flexible from now through the end of the year and as this mix continues to develop.

ALEXIS CHRISTOFOROUS: Sylvia, real quick before we let you go, the Fed has done its part to prop up the muni market. Jerome Powell speaking later this morning. Do you expect, do you want to see even more support from the fed for the muni market?

SYLVIA YEH: You know, I got to say, munis get a bad rap, and this market has shown how resilient it really can be. The muni market has tools made available to them through the Fed, the MLF in particular. It is there. It is the borrower of last resort, and a handful of issuers have tapped it. There were probably a few more who will tap it. Is additional fiscal stimulus important to the marketplace? In so capacity, I'm sure, but the Fed and others have done what this market needs in order to function. By the way, look at the market. It's functioning.

ALEXIS CHRISTOFOROUS: There you have it. Sylvia Yeh, Co-Head of Municipal Fixed Income at Goldman Sachs Asset Management, good to have you here this morning.

SYLVIA YEH: Thank you. Take care. Stay well.

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