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## **In Election Dispute, Citi Sees Munis Lagging in Flight to Safety.**

- **Market will go into ‘risk-off mode’ analogous to 2000 election**
- **Treasuries would likely gain, making munis look cheaper**

A disputed presidential election could set off a Treasury rally that would make state and local government bond prices look cheaper — at least in comparison.

Citigroup Inc.’s municipal strategists said they foresee a “somewhat high probability” that a clear victor won’t quickly be known. If so, Treasury prices would likely rise as investors shift cash into the safest assets, widening the gap between yields on those securities and less volatile municipal bonds.

“We would expect a moderate Treasury rally as the market goes into risk-off mode as they await the adjudication of the election by SCOTUS,” Citigroup Inc. muni strategists led by Vikram Rai wrote, using the acronym for the U.S. Supreme Court.

While polls show Democrat Joe Biden leading in the polls, President Donald Trump and Republicans are poised to mount legal challenges in battleground states where a flood of mail-in ballots will continue to be tallied after Election Day.

Yet traders and fund managers may not need to gird for extreme volatility: While Treasuries would gain as the election is sorted out, muni-bond prices would likely be little changed in light trading, Rai said in a phone interview.

“If they don’t trade, the prints will remain stale and it will seem like the ratios are widening, it will seem like the spreads are widening,” he said. “That’s typical for what happens with all spread products whenever there’s a risk-off rally.”

Top-rated 10-year municipal bonds currently yield about 0.93%, or about 110% of comparable Treasury bonds, up from as little as 86% in August. That ratio — a key measure of relative value — signals that municipal bonds are growing cheaper when it rises and more pricey when it falls.

Treasuries rallied in the aftermath of the Gore versus Bush election of 2000, after a recount battle was ultimately decided by the Supreme Court. From Nov. 8, 2000 to December 12, 2000, when the Supreme Court ruled on the recount dispute, the 10-year U.S. Treasury rallied by about 0.52%, according to Citigroup. The 10-year was 5.87% on Nov. 8, 2000, so a comparable decline in percentage terms would be just 0.07 percentage point.

By contrast, if the election is decided without a dispute, Citigroup strategists expect bond markets will selloff moderately and stocks will rise “as investors breathe a sigh of relief at the thought of finally having this epic event behind us.”

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By Martin Z Braun

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