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More High-Yield Muni Borrowers Are Defaulting but Investors Still Want In.

Prices on risky bonds have climbed even as repayment troubles have mounted

Covid-19 is wreaking havoc on the market for risky municipal bonds. Investors desperate for tax-exempt yield are still piling in.

Fixed-income returns that come with a tax break have become so precious to affluent American households that they are willing to overlook a spike in defaults, growing reports of repayment trouble and contagion risks of communal living projects.

The S&P Municipal Bond High Yield Index is now only about 1% lower than its pre-coronavirus pandemic level, despite falling 15% in March as global shutdowns roiled the market.

The Federal Reserve stepped in at that time to backstop a variety of assets including municipal bonds, resetting investor expectations about how much risk the pandemic poses to a range of markets from stocks to commodities to corporate and muni debt.

Continue reading.

The Wall Street Journal

By Heather Gillers

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