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Record High Muni Prices Leave Investors Waiting to Buy the Dips.

- **Cash influx, seasonal slowdown sends valuations to record high**
- **10-year benchmark munis yielding about 70% of Treasuries**

The record high valuations in the municipal-bond market have put some investors in an unusual position: rooting for a surge in supply that would push down prices.

With new cash pouring into mutual funds and a steep slowdown in the pace of new debt sales this month, the yields on 10-year tax-exempt bonds have been hovering around 70% of those on Treasuries. That measure, a key gauge of relative value, hit about 66% in mid-January — the lowest in at least two decades — signaling that the prices of state and local bonds are unusually expensive.

That dynamic is contributing to a “lack of investor appetite,” with trading levels slowing over the past several months, strategists at Barclays Plc said in a Jan. 22 note.

That may change if the pace of bond sales picks up as expected after the end of January, a usually slow month for state and local government debt offerings. Some Wall Street banks, including Citigroup Inc., are forecasting a massive surge in debt issuance in 2021 as local governments seize on low interest rates to refinance bonds or bankroll public works projects to help jumpstart their economies after the pandemic.

“At some point, the calendar will start picking up again, which will create more opportunities,” said Susan Courtney, head of the municipal-bond team for PGIM Fixed Income. “We’re looking forward to a pickup in supply from that perspective.”

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