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Muni Recovery Trade Wins Big as Covid-Battered Bonds Rally Back.

- **Index with convention center, ballpark sees biggest returns**
- **Profiting from wager on bounce back from the pandemic**

The best bet in America's municipal-bond market is on life returning to normal.

The Bloomberg Barclays index of the riskiest municipal securities backed by lease payments — which includes those issued by the owner of Chicago's McCormick Place convention center, the American Dream shopping mall in New Jersey and Hartford, Connecticut's baseball stadium — has returned more than 5% so far this year even after the recent selloff in the bond market. That's five times more than the overall return on municipal junk bonds and stands in contrast to the losses investors have suffered on investment-grade debt.

The returns reflect optimism that the end of the pandemic will herald the return of spectator sports, industry conventions and office life — all of which have been in virtual hibernation since last March. That promises to revive the streams of revenue — like hotel taxes — that back local government bonds sold for civic projects.

"The reopening bias is pervasive through the bond market," said Gabe Diederich, a portfolio manager for Robert W. Baird, which holds Chicago convention center debt as part of $8 billion in muni assets under management. "It's something investors are already shifting money toward in expectation it takes place — very similar to the inflation trade."

The riskiest revenue bonds were among the hardest hit during the selloff that erupted in the wake of the pandemic a year ago, when investors dumped the securities in droves on speculation the projects would be roiled by the shutdown of the nation's economy.

The securities have since rebounded as the spread of the virus slows and millions of Americans get vaccinated.

A 2050-maturing bond issued by the Metropolitan Pier and Exposition Authority — which oversees Chicago's convention center, the nation's largest — tumbled to as little as 90.5 cents on the dollar last year. It last traded for about 119 cents. Debt backed by the American Dream shopping mall, one of the biggest issues of unrated municipal bonds, has jumped to 112 cents from 92 cents in April.

The gains come amid broader speculation that the nation's economy will gain steam, with Congress moving toward enacting President Joe Biden's $1.9 trillion recovery package. While that has triggered a rise in interest rates that has weighed on the broader debt market, municipal junk bonds have been relatively insulated since the higher yields make them less sensitive to rising rates.

Yet even with the rise in yields, those on the highest-rated bonds are still low by historical measures. That has also helped to buoy demand for lower-rated bonds issued by borrowers that stand to benefit financially from the recovery.

“They are anticipating continuing progress toward normalcy,” Diederich said.

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