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Munis Become Refuge From Bond Market Losses With Yields Falling.

- **Citigroup 'moderately bullish' on outlook for tax-exempt bonds**
- **Modest March gains as Treasuries, corporate bonds see losses**

America's municipal bonds are proving to be a haven for fixed-income investors.

Even as speculation about resurgent economic growth drove up yields on corporate bonds and Treasuries this month — saddling investors with losses — tax-exempt debt moved in the opposite direction. Benchmark municipal-bond yields have dropped so far in March, delivering investors a return of 0.72%, according to the Bloomberg Barclays index.

Munis break from Treasuries, delivering gains as yields fall
The disconnect is coming as investors plow back into the municipal market following a selloff late last month, with both mutual funds and exchange-traded funds seeing an influx of cash.

President Joe Biden's rescue plan is poised to provide a massive infusion of aid to states, cities, school districts and public transportation systems to make up for the financial toll of the pandemic, promising to remove any stress from a wide swath of the market. At the same time, the pace of new debt sales has slowed and potential moves to raise taxes on the highest earners at the state and federal levels may further fuel demand.

"We have too little tax-exempt supply for every dollar of investor demand. There are just far more muni bond investors than there are issuers now," said Matt Fabian, managing director of Municipal Market Analytics. "That's a condition that will only get worse if taxes rise."

The demand is driving a closely watched gauge — the ratio of municipal yields to those on Treasuries — back toward the record lows hit last month, indicating that state and local government bonds have gotten more pricey in comparison. Ten-year municipal bonds yielded about 62% of Treasuries by the end of last week, not far from a low of 54% in mid-February.

Citigroup Inc. analysts led by Vikram Rai on Monday said they expect the municipal market's outperformance to continue given the positive effect the stimulus will have on government agencies that have issued bonds.

"While we still fear fund flow related volatility ahead, our moderately bullish outlook on tax-exempt paper remains in effect," the report said.

Bloomberg Markets

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March 15, 2021, 10:31 AM PDT

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