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Muni Bonds See Longest Winning Streak Over Treasuries Since 2014.

- **Munis beat Treasuries for seven straight months through April**
- **Analysts expecting strong performance in the short-term**

America's municipal bonds are staging their longest winning streak against Treasuries in seven years.

State and local debt has benefited from a surge of cash in 2021 that's showed no signs of letting up, with President Joe Biden's plans for higher taxes on the wealthy catalyzing demand for the bonds that pay tax-free interest. That flood of money has helped municipal returns' beat Treasuries for seven straight months through April, with state and local debt posting a gain of 0.8% last month, according to Bloomberg Barclays indexes.

But with debt sales by states and cities poised to pick up and investor resistance to the historically rich levels rising, May could snap the winning streak. Already, benchmark muni yields have ticked up about five basis points since the start of last week. John Miller, head of municipals at Nuveen, noted in a May 3 note that selloff brought the securities closer to fair value.

Still, analysts say they're still expecting the market's overall strength to continue as inflows into municipal-bond mutual funds shows no signs of abating. Bank of America Corp. strategists said there's the potential for another market rally in May.

Barclays Plc strategists said the demand will help avoid a summertime correction in bond prices, even with valuations near record highs. They noted that municipals may outperform if interest rates rise again, which hurt Treasuries earlier this year. Municipals tend to outperform in rising-rate environments.

"Even if rates sell off further, tax-exempts will likely follow, but should outperform, supported by a combination of low supply, strong inflows, heavy bond redemptions over the course of the summer; large cash cushions of mutual funds; and improving credit quality of municipal bonds," the Barclays strategists said.

James Iselin, a managing director at Neuberger Berman Group LLC, said it's unclear what could "dislodge" market conditions, given demand has stayed strong and new issuance of bonds has remained manageable.

"So far, the technicals are really driving the show right now," he said.

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By Amanda Albright and Peyton Forte

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