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Municipal Market Sales Slacken, Raising Supply Alarms.

- **Investors keep cash on sidelines in expensive market**
- **States, localities are being helped by federal funding**

State and local governments, helped by the arrival of federal stimulus money, are in no rush to issue debt as they wait for Congress to consider sending them infrastructure funding.

Municipal bond issuers are anticipated to sell $7.3 billion in bonds over the next month, the lowest visible supply mark since late March and well below the average pace of about $10 billion this year, according to data compiled by Bloomberg. The 30-day supply projection usually accounts for about half of what is actually sold, since deals can be priced with less than a month's notice.

The drop in visible supply comes at a time of year where issuance has been historically strong. A combination of an economic rebound and the $350 billion American Rescue Plan, of which $105.3 billion has already been disbursed, has left the nation's municipalities less dependent on borrowing, said Barclays Plc municipal strategist Mikhail Foux.

"Going into the year a lot of people were thinking municipalities would have to issue bonds to fund deficits. The economic recovery was stronger than people believed," Foux said. "Clearly we're not going to have that much issuance over the course of the summer."

Issuers may also be waiting for federal infrastructure plans, which could serve as the catalyst for billions of dollars of debt sales. This week, Democrats in both the House and Senate advocated for leaning on the state and local government debt market in any infrastructure package and the revival of a technique to refinance debt that was rolled back during the Trump administration.

For now, the lull in sales has yet to scare off participants in a muni market that has become historically expensive by some metrics. Money has continued to pour into the market unabated, with investors adding an additional $725 million to municipal-focused mutual funds, marking the 11th straight week of inflows.

Those funds have been sitting on more cash than ever before, perhaps waiting for the right time to deploy. The 10 biggest mutual fund families all have higher cash holdings than 2016 levels, with some holding nearly 10% more, according to Barclays. If there's rate volatility during the summer it could be an opportunity to put that money to work, Foux said.

"If rates move higher, munis will outperform somewhat," Foux said. "Everyone understands valuations and how rich they are and people don't want to chase at current levels."

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By Fola Akinnibi

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