Bond Case Briefs

Municipal Finance Law Since 1971

Municipal Bonds: Breaking Down The Strength In The Market In 2021.

In 2021, municipal ("muni") bonds have been a tough asset class to manage due to overwhelming demand and limited supply in the market. Fundamentally, there are a few reasons for these conditions, and we'll take a look at some data points to bring the bigger picture into focus.

1. Investor expectations of higher taxes have been a primary underlying force behind the surge of cash flowing into municipals. Asset allocation models for investors in a higher tax bracket have likely been adjusted to reflect a higher tax rate because mutual funds and ETFs (exchange-traded funds) in the municipal space are flush with new money.
2. The stimulus bill signed in March pledged $350 billion for state and local governments, $170 billion for education and $20 billion for public transit. If we are looking at muni yields as a percentage of Treasury yields, the stimulus package seems to have assuaged many of the COVID-19-related credit concerns that were at the forefront throughout 2020. Muni prices have sustained the recent increase in treasury volatility extremely well pushing AAA muni/Treasury ratios to historic lows.

Continue reading.

Advisor Perspectives

by Michael Landrum of Advisors Asset Management, 6/3/21