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Lofty Muni Valuations Show No Sign of Ebbing in Demand Onslaught.

- **30-year muni yields are near historic low versus Treasuries**
- **'Technical tailwinds' set to support prices, LPL's Gillum says**

The strength of the municipal-bond market shows no sign of fading in the next few months, sustaining the securities' historic valuations with investors plowing money into funds that buy tax-exempt debt.

Amid robust demand as lawmakers in Washington debate higher taxes on the wealthy, munis have offered shelter in a tough year overall for fixed-income securities. They've eked out a positive return in 2021, while most parts of the bond market have lost money.

The outperformance relative to Treasuries has been historic. Yields on 30-year state and local bonds are about as low as they've ever been compared with their federal counterparts. The upshot is that it's an appealing time to borrow for issuers of all stripes. In just one example, American Samoa is bringing junk-rated debt to market this month, in its first offering in years.

"Yes, munis are expensive, but there's a lot of technical tailwinds that could help support those prices, at least on a near-term basis," said Lawrence Gillum, fixed-income strategist at LPL Financial. "Valuations in and of themselves don't mean that markets need to sell off, especially if there's a technical tailwind and that's certainly what we're seeing in the municipal market."

Municipal mutual funds and exchange-traded funds have seen a flood of cash in 2021. The ETFs have pulled in $9.4 billion this year, on track to beat the record set in 2020, data compiled by Bloomberg show. With investors hunting for extra yield, junk muni funds have seen 13 straight weeks of inflows, according to Refinitiv Lipper US Fund Flows data.

In the U.S. summer months, the state and local debt market also typically benefits from a surge of principal and interest payments, adding to demand as buyers look to reinvest.

It's all happening against an improving credit backdrop as the economy reopens from the pandemic and as municipalities receive an influx of federal aid through President Joe Biden's American Rescue Plan Act. The president's pitch for higher levies helps as well.

"The market is preparing for the current administration to spend and lay out their tax plan," said Debra Crovicz, a portfolio manager at Chilton Investment Co. "If tax rates go up, I still think we're going to see inflows into this sector because June, July and August coupon reinvestments will typically outstrip the amount of supply."

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By Peyton Forte

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