Bond Case Briefs

Municipal Finance Law Since 1971

What's Next for Municipal Bonds After a Strong First Half of the Year?

As summer hits its stride, here are some musings about municipal bond performance to mull over as you unwind at the beach or on the couch (no judging!).

Market review and outlook

During the first half of the year, municipal bonds (munis) shrugged off the rise in long-term U.S. interest rates and crushed their taxable counterparts. Expectations for higher taxes in 2022 that could be included in a potential stimulus package have kept demand high, while muni net supply was constrained the last few months.

However, we believe it will be tough for munis to deliver the same outperformance versus taxable bonds during the second half of the year. Why? Muni yields started the year at much higher levels versus Treasuries (representing value); this differential is much less now, diminishing the relative value of munis versus Treasuries. The driving force for the rest of the year should continue to be technical demand, driven largely by the U.S. government's fiscal plan (more on this below). Barring a total derailment of the infrastructure and social-stimulus packages, we can expect this demand to stay high and muni yields to remain tight to Treasuries, with returns approximating muni market yields. Any strong selloff in munis is likely to quickly snap back as investors jump in to capture value.

Continue reading.

advisorperspectives.com

by Albert Jalso of Russell Investments, 7/15/21