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## **Muni Buyers Look for Shift From 'Inertia' That's Gripped Market.**

- **Market stagnates with light trading and predictable patterns**
- **Barclays cites 'Let's Get it Started,' sees more volatility**

Volatility in the state and local debt market has dwindled

Municipal-bond investors and traders are looking for something, anything, to get the market out of its doldrums.

Trading has slowed. Debt sales are up, but only by a paltry 4%. The amount of cash pouring into municipal investment funds has become predictable. State and local debt even defied the selloff in bonds globally on Tuesday, with yields barely budging.

The conditions have meant there hasn't been much volatility that investors often pounce on for buying and selling opportunities. A gauge measuring that volatility in the market over a 30 day period has fallen to the lowest since January.

"Absolute muni yields are too low to sell and too low to buy," said John Ford, co-head of municipal trading at broker-dealer firm Wall Street Access, who described the market as being stuck in a period of "inertia."

"Nobody wants to enter the market at these levels," he said.

Barclays Plc municipal strategists say they think the next few months could get more eventful, publishing a note on Friday with a title that referenced "Let's Get It Started," a song by the Black Eyed Peas, a pop-rap group. The note detailed the potential factors that could drive more activity in the market, including federal infrastructure legislation.

Dave Isaak, owner of Isaak Bond Investments, said he thinks buyers are worried about the risk of inflation, and that may be causing buyers to struggle to commit to a big position making a call on the direction of interest rates.

"There's a level of hesitation," he said. "Because the risk of inflation being more than transitory is out there."

The muni-bond market is also watching for any related change in policy from the Federal Reserve. If the Fed sought to taper its bond purchases, it could cause Treasury yields to increase, which could drive up yields on muni bonds, Ford said.

Still, Ford said he thinks any taper-related selloff would likely be muted compared to what happened during the taper tantrum in 2013, given the Fed has refined its messaging strategy and would telegraph a change in policy well in advance.

That would likely limit any increase in muni yields and would mean the securities could have a "lid"

on them for a while longer, he said. "I think munis are overpriced here and I hope that a new buying opportunity emerges."

## **Bloomberg Markets**

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