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Muni Trading Surge Drives Bond Values to Cheapest Since March.

- **The market braces for a flood of new supply in October**
- **More than $54 billion of bonds change hands in one week**

After months of scrounging for anything worth buying, municipal debt traders are finally finding plenty to keep them busy.

The amount of debt changing hands in the secondary market has picked up in recent days after a global fixed-income selloff shook the market out of its months-long stupor, driving 10-year tax-exempt yields to their highest relative to Treasuries in seven months. Over $54 billion of bonds changed hands the week ended Friday, the most in a single week since March and the second-largest weekly total of the year, according to Municipal Security Rulemaking Board data compiled by Bloomberg.

"The backup in ratios gave asset managers the chance to put money to work," said Simone Santiago, senior municipal trader at Eaton Vance. "They are able to swap out bonds they bought earlier in the year at much tighter yields and rebid those positions at wider spreads."

There's more to come as supply expands. State and local governments have so far scheduled $14.8 billion of bond sales over the next 30 days, well above the $11 billion average for that gauge this year, according to data tracked by Bloomberg. The actual amount sold will likely be far larger since many deals are scheduled with less than a month's notice.

Municipal bond yields edged up in recent weeks, tracking a sell-off in Treasury bonds and causing state and local government securities to post a 0.7% loss in September, the worst since February. Ten-year top-rated municipals are yielding about 76% of Treasury bonds, near the cheapest since early March.

The quicker pace marks a shift from earlier in the year when trading volume dropped to the lowest since at least 2001. In the first part of 2021, the market had too much cash and too few new bond sales, which kept yields low and valuations at historically expensive levels. Just last month, when California priced $2 billion of debt, those that mature in 2022 were sold for a yield of only 0.06%, 1 basis point lower than top-rated benchmark bonds at the time.

Santiago said being a trader in that market was like the 1993 film "Groundhog Day," with little changing from day to day, and she welcomes the newfound activity. "There is more to do, more opportunities if you want to book higher levels," she said.

Patrick Luby, a municipal strategist at CreditSights, said the largest contributor to the revival in trading is investors preparing for a flood of bond sales that typically happens in October.

"Munis remain a market that is constrained for supply," he said in an interview. "Having an expanded menu of choices for new deals in the market — that is a big driver."

This week, the Alabama Federal Aid Highway Finance Authority is planning to sell $1.52 billion of bonds, while San Diego's public school district is slated to bring $1 billion of debt to market.

The upcoming six weeks are typically the last time investors can get primary market exposure before new bond sales dry up around the winter holidays.

"We're coming into the part of the year that's the last sprint before the walk to the finish," Luby said.

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