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## **Municipal-Bond Fund Investor Pullback Signals Weakening Market.**

- **Municipal bond mutual funds see smallest inflow since March**
- **Investors pulling out of long-term municipal-bond funds**

Muni-bond yields have climbed in sympathy with Treasuries

Investors in the \$4 trillion market for state and local government debt appear to be looking for the exit.

They pulled \$344 million from long-term municipal-bond mutual funds and \$460 million from high-yield funds during the week ended Wednesday, according to Refinitiv Lipper US Fund Flows data. Overall they put just \$37 million into municipal funds, the least since an outflow in March and down steeply from last week's \$408 million inflow.

The easing of fund flows comes during a seasonally weaker period for municipal bonds. The amount of cash flowing back to investors through redemption payments over the next month is near its lowest since July and new sales of debt tend to increase in October. The municipal market posted a 0.7% loss in September, the second consecutive month of negative returns and the worst monthly return since February.

Patrick Luby, a municipal strategist at CreditSights, says there's no reason to panic just yet but said it is concerning giving broader market and economic trends. "There doesn't appear to be a wholesale change in sentiment," he said. "When you look at it within the context of weak prices and concerns about inflation, concerns about everything else I think it's definitely a yellow flag."

While these factors haven't been enough to spur significant outflows, the market is on the precipice, said Vikram Rai, head of municipal strategy for Citigroup Inc.

"It's not enough to trigger an outflow cycle but we're getting close," he said. "I expect that we will survive this. As long as Treasuries don't continue to sell off."

The Federal Reserve hinting at the potential pullback of its Treasury purchases as already pushed benchmark yields higher and is another weight on performance. If that trend continues, the weak demand may turn into outflows and create a cycle of under-performance in the market, Luby said.

"The bid side could be pressured pretty quickly if there's outflows from mutual funds," Luby said. "If that pressures the entire muni curve I would expect munis would under-perform."

### **Bloomberg Markets**

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