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## Long-Dated Munis Reach Cheapest of 2021 Amid Tax-Hike Debate.

- **Weakening relative to Treasuries comes as fund inflows slow**
- **Latest ICI data show smallest intake since outflow in March**

Long-maturity municipal bonds have reached the cheapest levels seen all year as demand for tax-free debt fades with Democratic lawmakers in Congress struggling to determine how to boost revenue to help pay for President Joe Biden's agenda.

Yields on benchmark 30-year munis are now about 89% of those on similar-maturity Treasuries, the highest proportion of 2021, according to data compiled by Bloomberg. The ratio is extending its climb from record lows set around mid-year as cash flooded into state and local debt, in part from high earners looking for shelter from potentially higher tax levels.

But Democrats' inability to hammer out an accord on tax increases has helped erode that demand. A proposed levy on billionaires' assets has been dropped in negotiations, and legislators are now discussing a surtax for those earning more than \$10 million, House Ways and Means Chair Richard Neal said Wednesday. The back and forth is adding to the uncertainty around the possibility of steeper taxes on income.

"As long as those prospects continue to wane, I think that is going to have an impact upon municipal demand," said Jeff Lipton, head of municipal credit strategy at Oppenheimer & Co. "I think by the end of the year, munis will comfortably outperform Treasuries, even though that performance spread may narrow."

Munis are on track for a third straight monthly decline for the first time since 2016. Driving home the ebbing appetite for the debt, muni mutual funds collected \$193 million during the week ended Oct. 20, the smallest intake since an outflow in March, according to the Investment Company Institute.

Even amid the latest slide, state and local debt remains one of the stronger corners of fixed income this year, earning 0.4% through Tuesday's close while Treasuries have lost almost 3%, Bloomberg index data show. And there's little doubt that a broad bond-market selloff amid concern about elevated inflation is contributing to the waning appetite for munis.

"Fund flows are weakening because rates are rising, it is as simple as that," said Vikram Rai, head of municipal strategy at Citigroup Inc.

Still, investors say they're monitoring the shifting political sands in Washington as a key part of the muni market backdrop in coming months.

"It seems like when the whole Biden infrastructure plan came, a lot of the tax reform was already priced into the market," said Max Christiana, a portfolio manager at Belle Haven Investments LP. "Now you've had a lack of progress from Congress, and you're seeing some fatigue in the market."

## **Bloomberg Markets**

By Nic Querolo

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