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Muni Investors Put 'Buying Shoes' Back on After 3-Month Slide.

- **State, local debt rebounds with biggest weekly gain since July**
- **Calm in Treasuries is helping, Neuberger Berman's Iselin says**

The municipal-bond market is seeing a bullish vibe re-emerge after the longest streak of monthly losses since 2016 put a dent in what has otherwise been a robust year for the securities.

The $4 trillion market for state and local debt is coming off its strongest week since July, according to Bloomberg indexes. What's more, the flood of cash into muni mutual funds, a key driver of the debt's outperformance in 2021, has picked up again.

Much of the credit for the rosier backdrop goes to Treasuries, where volatility has ebbed after Federal Reserve Chair Jerome Powell said last week that officials can be patient on raising interest rates.

Investors are starting to put their "buying shoes" back on after lacking conviction to dive in from August through October, said James Iselin at Neuberger Berman, which manages over $12 billion in munis.

"It definitely feels like a bit of a better tone, with Treasuries calming down at least a little bit in the short-term," said Iselin, the firm's head of municipal fixed income. "That's probably given people a bit more confidence to start buying."

Even with the slide of the past three months, munis are still beating other fixed-income asset classes in 2021. They've earned about 1% this year, while the broader U.S. bond market has lost about 1%, according to Bloomberg index data.

Cash has poured in partly as lawmakers in Washington have been debating lifting levies on higher earners. That's one big risk hanging over the market — that Democrats' efforts to introduce tax increases on wealthy Americans stall out, squelching demand for tax-exempt debt.

More Cash

For now, stability across debt markets has been enough to revive investor appetite. Last week's muni rebound coincided with increased retail interest. Investors added about $603 million to muni funds during the week ended Wednesday, the most since the week through Sept. 22, according to Refinitiv Lipper US Fund Flows data.

They're buying in as tax-free yields remain relatively high compared with recent months. The rate on the 10-year AAA municipal benchmark is around 1.12%, compared with the average of 0.94% for this year. It was as low as 0.66% in February.

Iselin said the resurgent demand has boosted bonds sold by large issuers, like the state of Illinois, which had seen credit spreads widen in the past few months. An index of 10-year Illinois general-obligation bonds yielded about 71 basis points more than top-rated debt on Nov. 5, down from around 91 in late October.

Tobacco bonds are also benefiting, an encouraging sign for high-yield munis as the securities are seen as a bellwether for the junk sector because they're relatively easy to trade.

High-yield tobacco debt posted its best performance last week since November 2020, according to Bloomberg index data. The price on Buckeye Tobacco Settlement Financing Authority debt due in 2055, the index's biggest holding, have inched back up in the last month.

For Barclays Plc strategists led by Mikhail Foux, it's adding up to a solid closing stretch for this year.

"We will likely end 2021 on a strong note," they said in a Nov. 5 note.

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