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Junk Munis Seeing Best Outperformance Since 2012 as Cash Returns.

- **Second-biggest inflow ever in high-yield munis extends advance**
- **Investors ‘want to be involved’ after seeing sector’s strength**

Junk-rated municipal debt is extending its biggest outperformance in almost a decade thanks to one of the largest weekly inflows ever seen into the sector.

Investors added $1.2 billion to high-yield muni mutual funds in the week ended Wednesday, second only to a slightly bigger intake in April, according to Refinitiv Lipper US Fund Flows data.

The rush of money, coming after Treasury yields appeared to stabilize below their October peak, marks a shift from the lackluster demand and even periods of outflows that the riskiest part of the municipal market saw in prior months.

“The pivot from demand sluggishness at the end of October back to strong inflows/demand over the past week has been pretty abrupt,” said Gabriel Diederich, a portfolio manager at Robert W. Baird & Co.

Junk munis are poised to gain for a third straight week, something they haven’t done since July. The segment has earned 7.2% this year, compared with 1.1% for the overall market for state and local-government debt, Bloomberg index data show. That performance gap is the widest since 2012.

With most of the fixed-income universe posting losses in 2021, munis have been a haven. They’ve lured money as the economy has recovered from the pandemic, federal relief has flowed to municipalities and as lawmakers in Washington debated steeper taxes on higher earners. That backdrop has benefited the riskiest debt most.

‘Garnering Attention’

“The big outperformance that we’ve seen this year is garnering attention,” said Kathleen McNamara, senior municipal strategist at UBS Global Wealth Management. “Muni investors chase returns, they saw how well muni high-yield has done and they want to be involved.”

McNamara said that after yields on junk munis rose from the record lows seen this year, investors who had been waiting on the sidelines returned to the market. Then, after the securities staged a rebound this month, more buyers wanted to participate given that municipal credit remains strong.

There’s also the fact that munis have entered a “stronger technical backdrop” in November with the calendar of new-issue sales dwindling before year-end and the need to start positioning for 2022, said Terry Goode, a senior portfolio manager at Allspring Global Investments.

That may benefit some high-yield bond sales on the horizon in the weeks ahead.

A conduit borrower in Phoenix, Arizona, is expected to sell $256.7 million of unrated, tax-exempt bonds to finance the construction of a hotel and conference center in Puerto Rico. Separately, Grand Canyon University in Arizona is slated to offer $1.3 billion of taxable, junk-rated bonds next week.

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