

Bond Case Briefs

Municipal Finance Law Since 1971

Money Is Yanked From Junk Muni Funds for First Time in Months.

- **High-yield muni mutual funds lose \$364 million in week**
- **Rate volatility and a negative total return spook investors**

Municipal bond investors have pulled money from high-yield mutual funds for the first time in nearly three months, showing that the unprecedented demand muni funds enjoyed for much of the last year may be waning.

High-yield municipal bond mutual funds lost \$364 million in the week ended Wednesday, according to Refinitiv Lipper U.S. Fund Flows data. That's the first outflow for junk state and local government debt since October, the data shows.

Municipal funds more broadly are coming off a record year of demand, collecting nearly \$100 billion of cash in 2021 as investors spooked by the prospect for higher taxes flooded tax-friendly investment strategies. That demand helped push municipal bond prices higher and boosted returns for the asset class, making state and local government debt a top performer among fixed-income in 2021.

The riskiest state and local government debt returned almost 8% last year, besting nearly every other fixed income asset class as a booming economy gave investors confidence in junk and unrated securities, causing spreads to compress and the payout for owning such debt to shrink.

However, increased rate volatility and a negative total return so far this month may have worried some investors, said Kathleen McNamara, senior municipal strategist at UBS. "That causes investors to hesitate and/or pull money from mutual funds," she said.

Month to date, high yield municipals are down about 0.73%, according to Bloomberg's index.

Paul Malloy, head of municipals at The Vanguard Group, said he's being more cautious on risky debt in 2022 as valuations richened last year.

"It's the kind of market, with everything compressed, we like better quality," said Malloy, who oversees Vanguard's \$267 billion of municipal debt. "We don't believe this is the time to go bottom feeding at these valuation levels. We are relying on credits with strong long-run fundamentals."

Bloomberg Markets

By Danielle Moran

January 13, 2022, 12:18 PM PST