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Rising Interest Rates Hit Municipal-Bonds Market

Investors expect climbing rates to fuel more volatility in the year ahead

Municipal bonds are off to their worst start since 2011.

The early-year bond rout has dragged returns on the S&P Municipal Bond Index to minus 1.1% through Jan. 20, counting price changes and interest payments. The loss is an early sign that rising interest rates could make 2022 rockier than last year, when federal stimulus and elevated demand from homebound savers led to record low volatility and historically high prices.

Now investors are eyeing those prices more warily. Muni bond mutual and exchange-traded funds took in a net $830 million through Jan. 19, compared with $6.1 billion last year, according to Refinitiv Lipper. After Fed officials indicated they could lift short-term rates sooner than expected, muni yields jumped alongside Treasury yields, with 10-year AAA muni yields rising to 1.28% Jan. 20 from 1.03% Dec. 30, according to Refinitiv Municipal Market Data. Yields rise as bond prices fall.

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The Wall Street Journal

By Heather Gillers

Jan. 23, 2022