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BlackRock Says Muni-Bond Pain Sets Up Long-Term Gains.

- **Municipal-Treasury ratio is up significantly from 2021 average**
- **Recent decline has restored value to asset class, firm writes**

The world's largest asset manager sees opportunity in municipal bonds after state and local government debt posted the worst start to a year on record.

"The recent declines have restored value to the asset class, with municipal to Treasury ratios now on par with their five year averages," wrote BlackRock's Peter Hayes, James Schwartz and Sean Carney in a research note. The trio oversees about $187 billion of municipal assets. "While the market will likely face additional near term volatility, we anticipate buying on weakness."

Municipal bonds have lost about 3.3% since the beginning of January, following a global fixed-income rout driven by a concern that the Federal Reserve could hike interest rates as early as March.

Muni bonds cheapen compared to Treasury debt in volatile start to year

That has caused state and local government debt valuations to cheapen, providing a more attractive entry point than the near-record-rich levels seen for much of 2021. Ten-year benchmark municipal bond yields are hovering around 83% of comparable Treasury debt, with the municipal-Treasury ratio, a key measure of relative value, up significantly from it's 2021 average of about 68%, the data shows.

BlackRock said that an increase in yields and strong credit fundamentals have "significantly improved the relative value of municipal bonds."

BlackRock has shifted to a long-duration stance in February from a more neutral positioning last month. The group prefers higher quality bonds overall but is looking to add "select" lower-quality credits while valuations look attractive.

They are overweight states and essential service revenue bonds, school districts and local governments supported by property taxes, flagship universities and health systems, and select high-yield credits. The group underweights speculative project finance deals, senior living and long-term care facilities in saturated markets.

"Any forced selling due to negative fund flows should be viewed as an occasion to source cheap bonds in the secondary market."

Bloomberg Markets

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February 15, 2022