# Bond Case Briefs

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## BofA Says Worst of Muni Selloff May Be Over as Fed's Path Clears.

- **First quarter likely absorbing most of year's bearish move**
- **Risk removed unless 10-year Treasury yield surpasses 2.5%**

Bank of America Corp. says the worst of this year's selloff in the municipal bond market might already be over, though there may be some additional pain in March after the Federal Reserve's rate decision.

With the timing of expected policy tightening at the central bank now shifted to next month, the first quarter should absorb most of the bearish price action, analysts led by Yingchen Li wrote in a note Friday. And the more the Fed lifts rates at its next meeting, the clearer the path of rates will be in 2022, they said.

Benchmark municipal yields have already priced in a 10-year Treasury yield as high as 2.5%, and unless Treasuries unexpectedly move beyond that, the risk of higher muni AAA rates should be largely removed, Li said.

"At this point, we believe investors should enter the market, and keep in mind the possibility that either the peak 10-year AAA was already delivered in January, or at worst, another retest might be in March," Li wrote. Tax-exempt money market rates even "appear to be quite cheap."

Munis selloff may be over but analysts warn of March retest

Meanwhile, municipal analysts at Ramirez & Co. say they expect the market to underperfrom for another few weeks as "markets remain unsettled and investors re-evaluate allocations to the muni asset class."

Munis have lost about 3.2% in 2022, while Treasuries have fared a bit better, declining 3.1%, Bloomberg index data show. The result is that benchmark muni yields have risen relative to Treasury yields, making them cheaper on a relative basis.

Investors added $216 million to municipal-bond funds in the week ended last Wednesday, with some investors seizing the opportunity to snap up bonds with higher yields.

"Retail participation increased as current levels are seen as attractive, especially when viewed in ratio terms," Bank of America's Li wrote. "However, general cautiousness still persists, as is typical during Fed tightening cycles and around market turns."

**Bloomberg Markets**

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