
Munis Gain Most Since 2020 as Global Markets Move to Haven Assets.

- **Benchmark 10-year yield declines 7 basis points to 1.58%**
- **At least two small competitive deals postponed Thursday**

Benchmark municipal bonds are rallying the most since late 2020, and at least two small deals were postponed, after Russia began a full-scale invasion of Ukraine, spurring a move into haven assets.

Benchmark state and local-government yields dropped across the curve, falling as much as 8 basis points, according to Bloomberg BVAL data. Ten-year yields slid 7 basis points to 1.58%, in the biggest decline since the aftermath of the November 2020 U.S. presidential election.

The day's events roiled global markets as stocks slid, with the S&P 500 index down about 1% after mid-day in New York. U.S. 10-year Treasury yields tumbled almost 15 basis points and then pared the move, with yields down 7 basis points to 1.92%. Federal debt is likely to set the tone for city and state securities as the day goes on.

"The direct implication is going to be a similar flight to quality in munis," said Nisha Patel, a managing director at Parametric Portfolio Associates LLC.

The muni rally may continue as valuations relative to Treasuries have cheapened in recent weeks, she said. Ten-year muni yields have been climbing closer to Treasury yields since the start of January. As of Wednesday, the muni rates were about 84% of those on comparable-maturity Treasuries, compared with the 12-month average of 69%. The higher the ratio, the cheaper munis are in comparison.

The advance pares munis' 2022 loss, which has been fueled by inflation concern and the prospect of Federal Reserve rate hikes. Munis have lost 3.3% to start the year through Wednesday, an unusually poor performance for a period that typically sees the market gain amid reinvestment demand and a relatively thin calendar of new bond sales. Treasuries are down 3.5% in 2022.

Lyle Fitterer, co-head of municipal investments at Robert W. Baird & Co., said the Treasury market is absorbing how the conflict will impact the U.S. economy: It may depress economic growth, but there's also a potential inflationary dynamic as commodity prices surge. Municipals will likely follow suit as Treasury gains have faded, he said.

"As the day has gone on, there seems to be lots of bid lists showing up in the market," he said.

Postponed Deals

In the primary market for munis, Oakland, California, sold $212 million of debt Thursday in a competitive sale, data compiled by Bloomberg show.

But two deals slated for competitive auctions, a $16.5 million sale from an Indiana school-building corporation and a $865,000 offering from a district in Oklahoma, were postponed. There was a similar tone in the corporate market, with companies postponing sales in U.S. and Europe on Thursday.

“We felt that with everything that was going on with Russia and Ukraine and the volatility in the market it made sense to take a step back,” said Tim Sutton, director of bond pricing at Baker Tilly Municipal Advisors, the advisor for the Indiana deal. The issuer, the Western Boone Multi-School Building Corporation, plans to be back in the market next week, Sutton said.

“Our concern is that we weren’t going to have as many eyes on the deal given the overnight situation,” he said.

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