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Volatility Returns in Muni Market's Worst Quarter Since 1994.

- **Benchmark yields saw biggest jump since April 2020 on Tuesday**
- **State and local debt has lost 5.5% in 2022: Bloomberg indexes**

Volatility has come roaring back in the municipal-bond market.

The $4 trillion state and local-debt market just logged its most volatile 10-day period since the early 2020 selloff, according to data compiled by Bloomberg. Benchmark yields rose as much as 11 basis points on Tuesday, driving the market to its worst day of performance since April 2020. AAA yields rose as much as 2 basis points as of 4 p.m. on Wednesday.

The rout came after Federal Reserve Chair Jerome Powell's hawkish comments triggered a tumble in Treasuries as the central bank head seeks to tame the worst inflation in 40 years. Tuesday's move pushed the muni market to a 5.47% loss this year, poised for its worst quarter since 1994, according to Bloomberg indexes.

"I don't necessarily expect a quick snap back," said Mikhail Foux, head of municipal strategy at Barclays Plc, who described the selloff as driven by the Fed's commentary. He said the market could start to recoup some of its losses in the second half of the year.

Outflows from municipal-bond mutual funds, typically a major buying force, have weighed on the market. The selling pressure accelerated on Tuesday, with the amount of bonds out for bid climbing to $1.6 billion, according to data compiled by Bloomberg. The average amount money managers are seeking bids on this month is nearly double the level in 2021.

BlackRock Inc.'s iShares National Muni Bond ETF, the biggest muni exchange-traded fund, saw a $275 million daily outflow on Tuesday, the biggest on record for the ETF, which debuted in 2007 and is often watched as a bellwether of muni demand.

Some relatively small municipal-bond offerings have been canceled or postponed amid the selloff. A bond offer set to be sold via auction this week by Peekskill, New York, was canceled, according to data compiled by Bloomberg. Albuquerque, New Mexico, canceled a portion of a bond sale that was meant to refinance debt, according to Albuquerque Treasurer Cilia Aglialoro. The rest of the city's bond offering is still planned for a sale via auction tomorrow.

Peekskill City Comptroller Matthew Alexander didn't immediately respond to a request for comment.

New York City sold $953 million of bonds on Wednesday and is offering investors extra yield as borrowing costs jump. Ten-year bonds that mature in August 2032 sold at 2.61%, or about 51 basis points higher than the interpolated 10-year curve, according data compiled by Bloomberg. That's slightly lower than the offering yield. It's about double what it paid when it sold 10-year bonds in August.

Leslie Martin, a tax-exempt portfolio manager at Cavanal Hill Investment Management, said she's focusing on shorter-dated securities, which investors have been looking to for refuge from rising interest rates.

She said the amount of bonds out for the bid isn't as high as Tuesday. Yields showed signs of stabilizing on Wednesday. Ten-year muni-bond yields rose 2 basis points to 2.08%.

"I'm hoping today is a little calmer," Martin said.

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