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High-Yield Muni Bond ETFs Are Having a Rough Time.

Speculative-grade municipal bond-related exchange traded funds have taken a beating, with high-yield munis on pace for their worst year since 2008.

Year-to-date, the VanEck Vectors High Yield Muni ETF (HYD) declined 10.8%, the SPDR Nuveen S&P High Yield Municipal Bond ETF (NYSEArca: HYMB) decreased 11.0% and the BlackRock High Yield Muni Income Bond ETF (HYMU) fell 11.9%.

High-yield municipal bonds are one of the worst-performing areas in U.S. fixed-income markets this year, marking a swift reversal from their strong performance in 2021, Bloomberg reports.

Speculative-investment grade muni debt is down 9.3% so far in 2022, or underperforming both investment-grade munis and high-yield corporate bonds, which puts this fixed-income segment on track for its worst year since 2008, according to Bloomberg data.

In comparison, high-yield munis returned almost 8% in 2021 and helped support the case for municipal debt as another diversifying haven for fixed-income portfolios.

However, conditions have quickly changed. The municipal bond market has seen muni fund outflows over the past 10 weeks. Investors also yanked about \$3.5 billion from muni-related bond mutual funds through the week ended April 20, marking another multi-billion dollar week of outflows for this fixed-income category, according to Refinitiv Lipper US Fund Flows data.

“High yield has been unduly dependent on excessive demand versus supply and has been unduly affected by the reversal of demand from mutual funds,” Matt Fabian, a partner at research firm Municipal Market Analytics, told Bloomberg. “In the prior world, where bonds were scarce, it was doing really well.”

RJ Gallo, senior fixed income portfolio manager at Federated Investment Management Co., warned that high-yield municipals could still continue to decline.

“We think it’s just a matter of time before more selling starts to come as people react to the losses they’ve already accrued and that weakness will propagate down the credit spectrum,” Gallo told Bloomberg.

ETF TRENDS

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