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Retail Investors Tiptoe Back Into Muni Bonds as Yields Beckon.

- **Number of daily trades is rising, a sign of retail activity**
- **Buyers may be lured by higher yields after muni market selloff**

Retail investors are showing signs of tiptoeing back into the $4 trillion tax-free bond market by one measure, signaling that key holders of the debt may be looking for bargains.

The number of daily trades surpassed 60,000 on a few days in late April, levels last seen during the 2020 pandemic-induced selloff. In March, that figure averaged around 42,600, according to trade data from the Municipal Securities Rulemaking Board.

The increase in the number of daily trades exceeds the growth in the total dollar value of trades. That suggests that more trades are of smaller size, typically a sign of retail investors getting more active.

To the extent individual investors are buying, they're doing so after muni bonds have been getting weaker all year. Average yields are about 3.2%, compared with 1.1% at the end of last year, according to Bloomberg index data. Excluding a brief time in the early part of the pandemic, current levels are the highest in years. And for some securities, yields can be even higher, which is attracting investor interest.

"Tax-exempt yields above a 4% have caused people to re-engage in the asset class," said Christopher Lee, head of municipal-bond sales for Wells Fargo's Corporate & Investment Bank & Co. He said the rising number of trades is a "gauge of retail engagement."

The number of muni trades per day has surged, a sign of retail activity

If more retail investors are buying, they're still only taking baby steps. Investors have pulled money out of muni bond mutual funds for 11 straight weeks through the week ended Wednesday, according to Refinitiv Lipper US Fund Flows data.

"We have been seeing a lot more interest from retail investors lately," Nisha Patel, a managing director at Parametric Portfolio Associates LLC, said. "While yields may go higher due to pressure from market outflows, I think we are in an opportunistic range of yields already," she said. "These are yields that the market has not seen since 2018, excluding the start of the pandemic."

While historically retail investors were the biggest holders of tax-free bonds, institutional investors have been acquiring a growing share of the market in recent years. Households and nonprofits directly held about 28% of muni bonds at the end of 2020, according to Citigroup Inc.

Max Christiana, a portfolio manager for Belle Haven Investments, said it's hard to know when the market has reached an absolute bottom, but it doesn't make sense to wait.

“It would be wise for investors to lock in yield during this buying period, rather than arrive at the party too late when the market normalizes,” Christiana said.

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