Bond Case Briefs

Municipal Finance Law Since 1971

Muni Bonds' Fire Sale Prices Enticing Retail Investors.

As institutional investors try to sell the segment, retail investors looking for tax-free yield are there to buy it, according to Tradeweb.

Retirees have flocked to institutional municipal bond markets amid market volatility even despite substantial losses in the segment, according to a new report.

The "liquidity crisis" spurred by the Covid-19 pandemic caused municipal bond funds to shed more than $28 billion in March 2020 alone, electronic marketplace provider Tradeweb said in a new report. This year, amid rising inflation and further economic turmoil, municipal bond prices dropped 9% through June, according to Tradeweb, which cites the Bloomberg Municipal Bond Index.

The broader municipal bond market has seen fund outflows in 18 of the 19 weeks, Tradeweb says.

Institutional investors have been spooked by the volatility, causing them to exit the segment, "all at fire sale prices," according to the report.

But the rising yields accompanying the falling prices have attracted retail investors even as institutional investors fled, Tradeweb says.

The company attributes it to better access through electronic trading.

"Historically, those two classes of investors would never cross paths, but — thanks to recent advances in electronic trading that have given retail wealth managers a direct conduit to the institutional sell-side — retiree investors have come to wield big buying power in the institutional municipal bond markets," Tradeweb said.

Retail investors have been municipal bond buyers at a four-to-one ratio, while institutions have been selling at a rate of two-to-one, according to the report.

This has led to a "mutually beneficial outcome," with institutional investors tapping Tradeweb to sell municipal bonds — often, according to the firm, at far better prices than otherwise would have been possible — to retail investors looking for tax-free yield.

financialadvisoriq.com

By Alex Padalka | July 13, 2022