Munis Now ‘Completely Unattractive’ as Debt Outpaces Treasuries.

- **Some maturities are priciest since early 2022 in comparison**
- **‘Investors should lighten up going into September’: Barclays**

Municipal bonds have become the costliest since early 2022 relative to Treasuries after a furious rally in recent weeks, spurring some strategists to recommend that investors seek alternatives.

US state and city debt surged in July by the most in more than two years and hasn’t sold off as dramatically as Treasuries in the wake of Friday’s unexpectedly strong labor data, which roiled bond markets as it spurred bets on further aggressive Federal Reserve interest-rate hikes.

Benchmark 10-year tax-exempts yield 2.25%, which is about 80% of the level on similar-maturity Treasuries, data compiled by Bloomberg show. That ratio, a key gauge of relative value, is close to the lowest since February, and compares with an average of 90% in the five years before the pandemic. The muni outperformance is even more glaring in shorter maturities.

“Municipal valuations are completely unattractive at current levels — the muni market simply went too far, too fast in July and early August,” municipal strategists at Barclays Plc led by Mikhail Foux wrote in an Aug. 5 research note. “Investors should lighten up going into September, and should look for a better entry point in the fall.”

Munis have gained 2.5% this quarter through Friday, beating Treasuries by almost two percentage points, according to Bloomberg index data. To be sure, on Monday, city and state debt was trailing, showing little movement while Treasuries gained, paring some of Friday’s big decline. But the bigger picture is that munis have been on a roll in comparative terms.

The tax-exempt market has been buoyed of late by cash flowing back to investors through maturing bonds, redemptions and coupon payments, while offerings of new debt have been lackluster. Since the start of June, new long-term muni sales have dropped by nearly 30%, according to data compiled by Bloomberg.

That’s made it difficult for buyers to get bonds and caused the securities to grow more expensive, said John Flahive, head of fixed-income investments at BNY Mellon Wealth Management.

“People either really love munis or they really hate them, we’re coming off a period where they love them and it’s harder to get allotments of deals,” he said in an interview.

For him, shorter maturities in particular are costly.

“The front end of the curve is very rich,” he said. “It doesn’t make a lot of sense to own at these levels — you should start looking at Treasuries, T-bills with more liquidity.”

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