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Munis May Be Cheap Enough to Lure Crossover Buyers, Vanguard Says.

- **Yield of 30-year muni index hits 3.8%, near eight-year high**
- **Credit strength adds to munis' allure, says Vanguard's Malloy**

The battering of bonds this year from inflation and higher rates has made long-term municipal securities so cheap that investors who usually shun them may be buyers.

The yield on tax-exempt municipal debt maturing in 30 years reached 3.8% on Thursday, near its highest since March 2014, according to data compiled by Bloomberg.

That's almost 92% of the rate on 30-year US Treasuries, higher than the usual ratio for tax-exempt to taxable debt, meaning the municipal bonds are relatively cheap. And the creditworthiness of state and city securities has benefited from robust tax receipts and federal pandemic relief, making them more compelling to a wider range of investors, said Paul Malloy, head of municipal investment at Vanguard Group Inc.

"Together it really does make municipals look to be one of the most attractive parts of the fixed-income market currently, particularly at the long end," Malloy said.

Yields on both new and old muni bonds have risen as the Federal Reserve raised interest rates to slow the fastest inflation in decades. Prices in the secondary market dropped, generating a loss of 11.5% so far this year for the broader municipal-bond market, according to Bloomberg Barclays Indexes.

Tax-exempt securities maturing in 22 years or longer are the worst-performing part of the muni curve, losing 18.9% through Oct. 19, according to the indexes.

But Vanguard's Malloy anticipates a bounce back, with demand from so-called crossover buyers who focus on corporate and US Treasury securities helping to raise muni bond prices, which move inversely from yields.

"One of the main characteristics of the muni market is it will snap back and it will snap back hard when it does," Malloy said.

Some municipal market participants also see support coming from the Fed down the road, when the central bank inevitably slows its rate-rise regime. Investors in longer-dated securities should extend their portfolio duration, but in a disciplined fashion, according to a Bank of America Corp. municipal research report dated Oct. 14.

"We see that the strongest returns tend to come on long maturity indexes between the second-to-last and last rate hike," according to the Bank of America report.

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