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For Closed-End Fund Investors, Paper Losses Turn Real.

Municipal-bond funds have been especially hard-hit amid market slump

Investors in closed-end funds are feeling a painful consequence of the historic market slump: cuts to their monthly payouts.

A Pacific Investment Management Co. California municipal-bond fund slashed dividends by 45% this month, while a Nuveen LLC stock fund endured a 7% cut. Eaton Vance Management in November cut distributions across six stock funds by as much as 24%. Six BlackRock muni funds endured at least two payout cuts last year, with dividends falling by as much as 38% in total.

The falling payouts are yet another way that investors are getting squeezed as Federal Reserve efforts to control inflation enter a second year. Many closed-end funds try to amp up returns by investing borrowed money. That risk generally paid off over the past decade, but has backfired in the face of rising rates and ensuing stock and bond losses.

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By Heather Gillers

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