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Shorter Term Munis Continue to Win Over Longer Dated Munis.

BlackRock, one of the largest muni bond managers, recently released their update on muni bond market performance for the month of July.It offers a nuanced view that combines optimism about the current strong performance with caution regarding the near future. The firm provides clear insights into strategic investment, highlighting both opportunities and potential risks, all while considering recent shifts in the credit landscape. Their guidance seems aimed at navigating the complexities of the market while recognizing the underlying stability of municipal bonds, particularly in comparison to the federal fiscal landscape.

The July update on municipal bonds paints a picture of strong performance with a warning of caution due to rich valuations and waning seasonal trends. The update emphasizes that municipal bonds maintained their seasonal strength, extending gains for the second consecutive month, driven by favorable supply-and-demand dynamics. Interest rates rose as the Federal Reserve resumed its tightening cycle, leading to a return of 0.25% for the S&P Municipal Bond Index, and a year-to-date total return of 2.78%. The performance of Triple-B rated credits and the 15-year part of the yield curve was particularly strong.

Issuance for July totaled $27 billion, down 17% from the five-year average, while the year-to-date total reached $198 billion, a decrease of 12% compared to the previous year. The reinvestment income outpacing issuance created a net-negative supply environment, resulting in deals being oversubscribed by 5.2 times on average. However, the report also advises a more cautious approach in the near term, suggesting that performance may soften in August, although prolonged weakness could present opportunities to lock in attractive yields.

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