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New Yorkers Are Better Off Buying Muni Bonds, Bank of America Says.

Wealthy New Yorkers can earn more investing in the city's municipal bonds right now than in corporate debt, Bank of America Corp. told investors Friday.

For New Yorkers subject to the highest tax rates, taxable bonds would need to yield 8.9% to compete with the yield offered on New York bonds, strategists Yingchen Li and Ian Rogow wrote in a note Friday. That's about 2.8 percentage points higher than a metric of yields on the ICE Bofa index of corporate bonds, they noted.

Bank of America is the top underwriter of municipal debt in the US.

The $4 trillion municipal bond market, like other parts of the fixed income, is offering elevated yields not seen in years as the Federal Reserve has hiked interest rates aggressively to combat inflation. But state and local debt has an added allure that other asset classes don't: the income is tax-exempt. That means that the yields on muni bonds are even higher after adjusting for taxes. And the higher your tax bracket, the more attractive the bonds look.

The yield on the 10-year AAA municipal benchmark has surged about 30 basis points this week, according to Bloomberg BVAL. The selloff has come after the Fed indicated its intention to keep interest rates high for as long as necessary to contain inflation.

"Muni yields are even more attractive now relative to corporates after recent selloff," the Bank of America analysts said.

For those living in New York City, which levies a city income tax, taxable bonds have to yield 9.68% to compete with the munis.

"In other words, New York City residents can earn more investing in New York munis than in high yield corporates," they wrote. The yield to worst, meaning the lowest amount of yield an investor can expect on the Bloomberg high-yield index, is about 8.9%.

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