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Investors Expect Tepid Returns for High-Yield Munis After Stellar Year.

- **A gauge tracking high-yield munis surged 9.2% in 2023**
- **Supply and demand dynamics supporting such debt remain strong**

Money managers don’t anticipate another banner year for high-yield municipals, one of the best-performing sectors of US debt in 2023.

Junk muni bonds posted a 9.2% advance for the full year, the most since 2019. Returns were buoyed by a lack of high-yield supply and a widespread market rally starting in November.

The market could look different this year if the Federal Reserve cuts interest rates and muni issuers rush to borrow. A slowing US economy also doesn’t bode well for a sector that’s largely made up of nursing homes, tobacco bonds and charter schools, said John Flahive, head of fixed income at BNY Mellon Wealth Management.

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By Maxwell Adler and Amanda Albright

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