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Muni Bonds to Stay Cheap After Rate Cuts.

- **Ongoing wave of new issue deals will keep muni values cheap**
- **Strategists advise positioning portfolios now before election**

Municipal bonds are looking attractive compared to taxable debt, with valuations at or close to their cheapest levels this year.

State and local government securities are poised to get even cheaper in coming months following the Federal Reserve's 50 basis point cut this week, according to strategists at Bank of America Corp., as well as Goldman Sachs Asset Management and Barclays Plc, who are advising investors that it might be a good time to buy.

According to Bank of America strategists led by Yingchen Li, the current cheapening doesn't reflect weakness in the tax-exempt market but rather richness in the taxable space. Those valuations could shift if muni supply wavers.

"If the new issuance calendar shows any signs of slowing off the torrid pace when Election Day approaches, we believe significant ratio richening should be expected," wrote Li in a Friday note. "We continue to advise investors to take positions while the muni market rally remains slow and ratios are somewhat cheap."

The 10-year muni-Treasury ratio — a key measure of relative value — hit its highest level of the year earlier this week. The greater that figure, the cheaper municipal bonds appear on a relative basis.

So far in 2024, investors have piled into municipal bonds. Inflows into muni funds exceeded \$700 million for the week ending Sept 18, marking 12 straight weeks of expansion, according to LSEG Lipper Global Fund Flows data.

Joseph Wenzel, head of municipal funds and institutional accounts platform at Goldman Sachs Asset Management, said he expects tax-exempt securities to cheapen as record-setting new issue supply continues to pick up, speaking in a webinar Wednesday.

Barclays' municipal strategists Mikhail Foux and Clare Pickering highlighted a similar sentiment in a Friday research note, saying that the "challenging" technicals of the muni market — namely record levels of supply — could buck the historical pattern of muni ratios declining after the first rate cut in an easing cycle.

"Even though investors should keep in mind the risk of 'red wave' in November, we would consider adding in October if valuations become more attractive," the group wrote.

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By Erin Hudson and Maxwell Adler

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