Bond Case Briefs

Municipal Finance Law Since 1971

Muni Bonds Lag Treasuries by Most Since 2020 With March Loss.

Municipal bonds are heading for their worst month — compared to US Treasuries — since the asset class's pandemic-fueled rout in March 2020.

Munis are track for a 2% loss this month, while US Treasury returns were flat as of March 30, according to Bloomberg index data. Though, the rout is poised to ease on Monday, as both asset classes are rallying as stock-market weakness sparks demand for safe-haven investments. Muni yields have dropped by as much as 4 basis points across the curve.

March is generally a tough month for the US state and local debt market. Sales of new debt tend to be higher — issuance this month has surged 20% year-over-year, according to data compiled by Bloomberg. But fewer bonds mature around this time, so investors may not have the money to reinvest. Some investors even sell their holdings to pay their tax bills due in April, adding to the pressure.

"Lighter redemptions in each month can be combined with average to heavier supply to create headwinds," Kim Olsan, senior fixed-income portfolio manager for NewSquare Capital LLC, wrote in a email.

This March, these dynamics are exacerbated by policy-related uncertainty. Investors are assessing whether Republicans' effort to extend the 2017 tax cuts could pose a threat to the tax-exempt status of muni bonds.

These considerations have weakened demand, with investors yanking about $573 million from municipal-bond funds in the week ended Wednesday — the third straight week of outflows, according to LSEG Lipper Global Fund Flows.

The underperformance has meant that munis have cheapened compared to Treasuries. A key gauge of relative value in the market — a percentage of AAA muni yields versus Treasuries — shows that state and local debt is at its cheapest level since November 2022.

Despite this recent weakness Bank of America Corp. strategists said on Friday that they expect the backdrop to improve a bit by the second half of April, after taxes are due.

Still, supply looks like it will stay elevated even as demand teeters. JPMorgan Chase & Co. strategists said in a note on Monday that the $10 billion of sales slated for this week could pressure the muni market.

Last week's underperformance in munis was "chiefly the result of onerous net supply, UST rate volatility, exchange-traded fund outflows, and tax-loss trading," they added.

Bloomberg Markets

By Amanda Albright

March 31, 2025