

## Cash Rushing in Is Driving Municipal-Bond Values to Record Highs

2020-01-14 18:36:52.660 GMT

By Mallika Mitra

(Bloomberg) -- Americans are flocking to the municipal-bond market in record numbers. They've picked an expensive time to do it.

The influx of cash has driven the yields on top-rated, five-year debt to their lowest relative to Treasuries since at least 2001, indicating the municipal securities are trading at record-high prices in comparison, according to data compiled by Bloomberg. Thirty-year valuations hit a new peak last week. And those on 10-year tax-exempt bonds are rising back toward the highs reached last year.

The high prices – particularly those on securities that mature within the next several years – reflect the fact that the supply of new bonds hasn't kept pace with demand, said Matthew Andrews, managing director at C.W. Henderson & Associates, an investment management firm. Money has flowed into municipal-bond mutual funds every week for a year straight, in part because of the limit on state and local tax deductions that has left some Americans using their investments to drive down what they owe.

"People are just plowing money into short-term" debt, he said.

The richer valuations come as municipal-bond funds pulled in a record \$2.9 billion of new investments last week, the most on record, according to Refinitiv Lipper US Fund Flows data. Barclays Plc said earlier this month that the rising valuations have left them "cautious."

"In our view, rather than chasing performance, investors are better off lightening up their exposure now into market strength" the Barclays analysts wrote in a report.

Bryan DiDonato, a portfolio manager at Abner Herrman & Brock, said he's avoiding some short-term municipal bonds, including five-year debt, because of where valuations are.

"We feel it's overvalued at this point in time," DiDonato said. "We are trying to become a little more constructive, but not reaching too far for yield and lowering our credit quality standard."

To contact the reporter on this story:

Mallika Mitra in New York at [mmitra3@bloomberg.net](mailto:mmitra3@bloomberg.net)

To contact the editors responsible for this story:

Elizabeth Campbell at [ecampbell14@bloomberg.net](mailto:ecampbell14@bloomberg.net)

William Selway, Michael B. Marois