

Muni Buyers Play Defense Against Fed by Seeking Short-Dated Debt

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By Amanda Albright

(Bloomberg) -- Municipal-bond investors are flocking to the short end of the curve ahead of the Federal Reserve's meeting next week, when the central bank is expected to raise interest rates.

Shorter-dated municipals have gained as a result, with yields on top-rated municipals maturing in a year falling 11 basis points in the week since Thursday. That stands in contrast to a sell off in longer dated securities, which pushed up 30- year yields by 8 basis points and widened the difference between

two- and 10-year yields to the most since early April.

Retail clients want to be "as short as possible" due to concerns surrounding interest rates, said Bryan DiDonato, a fixed-income portfolio manager at the Jersey City-based Abner Herrman & Brock, which oversees \$700 million in municipals and specializes in separately-managed accounts. He said clients typically don't want to own municipals maturing after 10 years.

Long-dated municipal bonds have fared the worst this year, with those maturing after 22 years posting a 0.92 percent loss, according to Bloomberg Barclays indexes. The shortest-term securities have gained 0.78 percent.

"The demand is really on the short end of the curve and there's not as much demand on the long end of the curve," he said.

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