Long-Term Municipals Cheapest to Shorter Bonds Since April 2016

By Michelle Kaske
(Bloomberg) --

Municipal bond investors willing to take on duration risk haven't been this relatively well compensated in more than 17 months.

- Yields on 30-year AAA tax-exempt debt on Wednesday offered 93 basis points more than yields on those maturing in 10-years, according to data compiled by Bloomberg. That's the biggest yield difference since April 5, 2016

- Year-to-date the long-end of the Bloomberg Barclays Municipal Long Bond Index has returned 6.47 percent, besting all shorter maturity indexes
  - Using the trailing one-year return, the long-end has been the worst place to be, its 1.04 percent trailing all shorter maturity indexes

- Longer-term yields need to increase to attract the institutional investor. This group can often take on the duration risk associated with longer dated credits, said Neil Klein, a senior managing director at Carret Asset Management in New York, which oversees $900 million of municipal debt
  - "We see sizable demand from individual investors on the shorter end of the curve. Investors that tap the longer end need to be compensated favorably"

- Potential tax reform that would lower individual income taxes has also affected long-term municipal yields as President Donald Trump and Democrats have negotiated a deal to continue funding the government, said Jeffrey Lipton, head of municipal research and strategy at Oppenheimer & Co.
  - "That sort of accelerates the focus on tax reform," Lipton said. "The discussion now seems to be heating up"

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