



Epic Rally for Municipals

- After a massive sell-off to start the month of March, municipals staged an epic rally to end the month. Ten-year yields plunged 153 basis points with record declines of 60 and 65 basis points (bps) on Thursday and Friday. After all the volatility in the first quarter, we are ending with yields almost unchanged.
- The \$2 trillion fiscal package coupled with the Fed's asset purchase program to include municipals triggered the strong rally. State and local governments will receive \$150 billion in aid and the Fed will have a broader ability to purchase tax-free bonds across the curve.
- Municipals remain compelling. However, the extremely attractive offerings have largely disappeared. Municipal/Treasury ratios remain elevated but the low absolute yields will likely slow this rally. It is unlikely we will return to sub-100% levels in the near-term due to Treasuries yielding well below one percent.

10-Year AAA Tax-Free Municipal Yields



Source: Bloomberg

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