Every 8 minutes, we respond to a disaster.
American Red Cross
HELP NOW

BARRON'S

Income Investing

News, analysis and commentary on income-generating investments.

October 17, 2016, 3:05 P.M. ET

More Pounding for Closed-End Muni Bond Funds

By Amey Stone

Last week's tough week for municipal bond closed-end funds is continuing into this week. Even as Treasuries rebound Monday, closed end funds were falling further.

The exchange-traded **VanEck Vectors CEF Municipal Income ETF** (XMPT) was down 1% Monday. It fell more than 3% last week alone. Large funds such as **Nuveen AMT-Free Quality Muni Income** (NEA) and **Nuveen Enhanced AMT-Free Muni Credit Opportunities** (NVG) were down nearly 1% on Monday.

For the two weeks ended October 15, this group of funds fell 5.01% on a total return basis, far more than the 1.37% decline on a net asset value basis, according to data from **Closed-End Fund Advisors**.

Munis have been underperforming Treasuries thanks to a spike in new issuance in recent weeks. Closed-end funds, which use leverage and were trading at high valuations, are more vulnerable to downturns.

Peter Block of **Ramirez & Co**. summed up the negative muni dynamics Monday:

> We said last week that Munis would likely cheapen due to a heavy new issue calendar, a rates selloff, and heavy dealer inventories. This week, the song remains the same…except supply is even larger at $15.5 bil. and investor demand is waning; fund inflows slowed to a virtual trickle last week at only $147 mil, or 25% of the 52 week average. Last week's release of FOMC minutes, Yellen's speech on Friday, and China's economic numbers also weighed on the market, particularly in the 2yr spot, (which underperformed by 6 ratios) as investors continued to flee tax-exempt money funds in the wake of reform enactment last Friday.

Jim Robinson, portfolio manager of **Robinson Tax Advantaged Income** (ROBAX), a fund that invests in muni CEFs, suggests the declines could be reversed with the spike in new issuance passes. He told *Barron's*:

> The last time we saw a spike in the issuance calendar of this magnitude was in November 2010. Back then we saw the muni-to-Treasury yield relationship widen 10 basis points—it's widened 15 basis points this time around; and, we saw tax-exempt CEF discounts widen more than 5%–they've widened about the same this time around. In the month that followed this big spike in issuance back in 2010 we saw a pretty major reversal of the spread and discount widening. The muni-to-Treasury yield spread narrowed 62 basis points in the month following the issuance spike and tax-exempt CEF discounts narrowed 3%.

Copyright 2016 Dow Jones & Company, Inc. All Rights Reserved
This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our **Subscriber Agreement** and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit **www.djreprints.com**