3Q 2019 Review: Total Return Tax-Free Municipal Bond

The dramatic drop in Treasury yields at the beginning of August caused the muni market to take a pause in its great relative performance earlier in the year.

The 10-year Treasury bond moved 52 basis points lower, going from 2.005% at the end of the second quarter to 1.48% at the end of August; and the 30-year Treasury bond moved 57 basis points lower, moving from 2.53% to 1.96% during the same period. In contrast, the 10-year AAA tax-free scale moved 43 basis points lower, and the 30-year AAA yield fell 42 basis points. This caused muni/Treasury yield ratios to move from 81% and 91% at the end of June to 84% and 96%, respectively, at the end of August. September saw a sell-off in yields at the beginning of the month, as the economic data was stronger than market participants expected. The 10-year peaked at 1.90%, and the 30-year topped out at 2.38% before rallying back down due to the bombing of oil facilities in Saudi Arabia. The volatility has cheapened muni/Treasury ratios to the current level of 89% in the 10-year range and 97% in the 30-year range. With a relatively heavy calendar, we have thus been able to buy some cheaper high-grade municipal bonds in the 130% yield ratio area, which makes for attractive placement in the longer end of our barbell strategy.

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See John talk about bonds in relation to 3Q 2019 at the link or in the player below: Week In Review for Cumberland Advisors – 2019-09-27

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