Post Election Yield Rally Continues (11/23/16)

As we stated in our commentary just days after the election of Donald Trump:

"…the market's perception of renewed economic vigor warrants a more cautious approach. Based on our experience, patience is required as a mood change of this type may not reverse as quickly as we believe it should. In other words, there are times when perception could "Trump" reality."

The global bond markets are continuing to pre-pay for inflationary policies put forth by the Trump administration. Individual investors, who make up over 50% of the municipal bond market, have succumbed to recent headline pressure, and as of the week ending November 16th, pulled $3 billion from municipal bond funds. To meet the redemption requests of individual inventors, Mutual Fund Portfolio Managers are forced to sell bonds into an already nervous marketplace. These forced sales have contributed to the widening spread between Munis and Treasuries (Current 10-year ratio: 100.7% [11.22.16]).

While the risk-to-reward in the marketplace is in the process of shifting toward optimism, it's important that investors who are adding funds to their portfolios look toward us to be patient in the investment process. As recently as today, many pundits are speculating that this is a historic buying opportunity in the tax-exempt market. We, on the other hand, are still showing respect for the latest trend of municipal bond mutual fund redemptions, along with rising US Treasury bond yields.

Today, there are forced sellers adding more "supply" into the marketplace at a time when broker/dealers are reluctant to position bonds in their trading accounts. With that said, it is possible the technical forces mentioned above can begin to reverse (barring prolonged weakness in the US Treasury bond market) as we enter the month of December. In mid-December we should begin a period known as the "January effect". This is a time ***typically*** marked by heavy ***seasonal*** demand as investors are flush with cash on the back of large coupon payments, maturing bonds, bond calls, and a relatively light new issue calendar. In short, too much cash chasing too few bonds.

Stay tuned, we'll keep you posted.