

## MUNICIPAL BOND INSIGHTS

SEPTEMBER 2025

# SOURCING MUNICIPAL BONDS: FINDING VALUE IN EVERY MARKET

A successful active strategy starts with how you source bonds. Sometimes the best value is in the primary market, when dealer concessions are wide. Sometimes it's in blocks, when liquidity dries up and sellers need bids. And it's almost always in odd lots, where technology helps us cut through the noise to uncover mispriced pieces. The true value is not in any one channel, but in knowing which is cheapest at a given moment — and having the discipline to scale up when value is there or dial back when it isn't.

### Primary Market

The primary market often offers sizeable and exploitable value through new issue concessions, i.e., when bonds are priced below their true market level. Underwriters are sometimes forced to build in large concessions to move supply, and once the bonds are absorbed, scarcity pushes prices higher.

Knowing which deals will increase in price and which are overpriced is the key to unlocking value. In 2024, the new issues we purchased tightened by an average of 4.4 basis points over the first 15 days, which translates into an approximate alpha of 0.36%. This exercise requires experience and judgment, built from years of participation in the market.

*“Knowing which deals will increase in price and which are overpriced is the key to unlocking value.”*

### Block Trades

Negotiated block trades are a consistent source of bonds for us, and in the right conditions they can be especially rewarding. When the market stumbles — whether through a stretch of heavy selling, seasonal swings in demand or the occasional buyer's strike — dealers and mutual funds facing redemptions often need to unwind positions quickly. When market selloffs happen, we look to pick off bonds at extremely favorable levels from desperate sellers, understanding the leverage we have as a liquidity provider. During the tariff-driven April dislocation, we took down bonds at significant discounts as supply was rapidly dumped on a nervous market. Our broad network of longstanding dealer relationships gives us visibility into where blocks are available. We have seen these types of opportunities repeatedly, whether sparked by a financial crisis, a taper tantrum, or a talking head like Meredith Whitney. We know when the market is seeing red and react accordingly.

*“We know when the market is seeing red and react accordingly.”*



**JOHN B. FOX, CFA**

*Director of Fixed Income*



**MARTIN R. TOURIGNY, CFA**

*Portfolio Manager*



**KARA M. SOUTH, CFA**

*Portfolio Manager*

## SOURCING MUNICIPAL BONDS: FINDING VALUE IN EVERY MARKET continued

### Odd Lot Trades

Trading small lots of bonds can also be an effective way to add immediate alpha, when implemented properly. Despite the size of the overall market, municipal activity is still dominated by smaller offerings, with over 70% of trades in pieces under \$100,000. We use a proprietary algorithm to filter through the thousands of line items available each day, flagging the bonds we view as mispriced due to their size. But the benefit of this trade only takes place if you add the odd lot to a block-sized piece. In that way, we take an illiquid bond and make it liquid and tradeable (and thus worth more). We are constantly running this program, purchasing thousands of these add-on pieces that translate into instant value for our clients.

*“Despite the size of the overall market, municipal activity is still dominated by smaller offerings, with over 70% of trades in pieces under \$100,000.”*

### Key Takeaways

Our job as an active manager is to scour the market for opportunities, to know what is cheap, and to execute in our client portfolios in a meaningful way. This takes years of experience and an investment process that has the flexibility to change alongside a constantly evolving market.

*GW&K is a market leader and pioneer in municipal bond investing having managed portfolios for clients since our founding in 1974. Our investment approach is active, flexible, and rooted in disciplined research to preserve and enhance principal and income. Learn more about our [capabilities](#) and don't hesitate to [contact us](#).*

#### DISCLOSURES:

Comments are subject to market conditions and market values. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information. This represents the views and opinions of GW&K and does not constitute investment advice, nor should it be considered predictive of any future market performance.