
Munis to the MAAX: Getting Tactical With Municipal Bonds

With Election Day right around the corner, fixed income investors have a variety of outcomes to consider. That includes potential impacts for municipal bonds. Investors can improve outcomes and get defensive with the VanEck Vectors Municipal Allocation ETF (Cboe: MAAX).

MAAX, which launched last year, is based off a proprietary model that incorporates momentum, along with both duration and credit risk indicators, to tactically allocate among selected VanEck Vectors Municipal Bond ETFs, which covers the full range of the risk/return spectrum in the muni market and includes five VanEck Vectors Municipal Bond ETF options.

Recent action suggests MAAX positioning could benefit investors into year end.

"Demand for the riskier segments of the municipal bond market faded in September. Demand for high yield municipal bonds was strong leading up to the pandemic and then fell sharply from February to April. Thereafter, demand ticked up from May through August, but fell, once again, in September," according to VanEck research.

Are Safe Haven Bonds that Safe?

It almost seems like "safe haven bonds" has become a misnomer. Some of the safest debt, such as municipal bonds, are now causing issuers to ask for help from the Federal Reserve amid the coronavirus outbreak, and it looks like their pleas will be answered.

Municipal bonds, known simply as munis, are debt obligations issued by government entities. Like other forms of debt, when you purchase a municipal bond, you are loaning money to the issuer in exchange for a set number of interest payments over a predetermined period of time. At the end of that period, the bond reaches its maturity date, and the full amount of your original investment is returned to the investor.

Since muni bond interest is exempt from federal taxes, muni ETFs are a good way for investors seeking tax-exempt income, especially those in higher tax brackets. Due to its tax-exempt status, the asset category is also best utilized in taxable accounts. Current risk trends indicate it could be time to consider MAAX.

"MAAX will continue to seek to balance both the risks and rewards of the asset class. It maintains a 35% allocation to high yield, a 35% allocation to investment grade long duration and a 30% allocation to intermediate-term investment grade. We believe that this allocation should allow MAAX to continue to benefit from attractive after-tax yields relative to what other asset classes are offering," notes VanEck.

ETF TRENDS

by TOM LYDON on OCTOBER 23, 2020