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Take an Active ETF Approach to Navigate the Municipal Bond Market.

Fixed-income investors can consider an opportunity to access tax-exempt income while actively managing credit and duration exposures through a short duration municipal bond exchange traded fund strategy.

In the recent webcast, [No Time for Passive: The Case for Active Muni Bonds](#), Samantha Azzarello, Executive Director, Global Market Strategist; J.P. Morgan Asset Management, outlined the current markets we find ourselves in with both daily increases in coronavirus cases and fatalities. Meanwhile, the economy is still trying to recover its former glory prior to the Covid-19 pandemic, with 11.4 million regained employees on total nonfarm payrolls after the economy suffered a loss of 22.2 million. We see that the leisure and hospitality sector has been one of the worst hit areas, followed by transportation, utilities, education, health services, business services, and other services industries.

Looking ahead, Azzarello argued that we are still on a path to recovery as supportive monetary and fiscal policies help lift the economy. Consensus analyst estimates reveal a return to positive earnings growth ahead for the S&P 500.

Richard Taormina, Managing Director, Head of the Tax Aware Strategies Team, J.P. Morgan Asset Management, also highlighted the strong demand and record supply in the fixed-income market as more investors look to diversify their bond portfolios in a quickly changing environment. Taxable supply continues to be strong with issuance up 200% year-over-year. Tax-exempt issuance, though, is slightly lower than last year. Fund inflows have reversed the \$45 billion in outflows across the March and April months and now show a positive \$20.2 billion year-to-date positive inflows.

Taormina noted that short rates will remain low as the yield-curve steepens ahead. The curve on 2 to 10 year bonds are at their steepest since 2018 after hovering near record lows earlier around March.

Meanwhile, Taormina argued that munis are still an attractive segment of the market for fixed-income investors when comparing the triple A-rated munis to U.S. Treasuries.

As a way to help better control their fixed-income duration exposure, investors can look to the actively managed JPMorgan Ultra-Short Municipal ETF (Cboe: JMST) to go down the yield curve and better manage risk. The JPMorgan Ultra-Short Municipal ETF tries to generate a high level of current income exempt from federal income tax as is consistent with the relative stability of principal. The portfolio primarily consists of investment-grade fixed, variable, and floating-rate municipal securities exempt from federal income taxes.

JMST comes with a 0.51% 30-day SEC yield or a 0.86% tax-equivalent 30-day SEC yield for those in the highest income bracket. The fund also has a 0.74 year effective duration and a 0.18% expense ratio.

The JPMorgan Ultra-Short Municipal ETF focuses on 0 to 1 year debt maturities, which make up about 74% of the portfolio. Compared to the benchmark Bloomberg Barclays 1-year Municipal Bond Index, it is slightly underweight to the top-rated muni debt securities since it holds a 16% position in non-rated debt, which may help the fund better generate yield opportunities. The ETF is also more heavily focused on local general obligation debt, hospital bonds, and housing-related bonds, as compared to the benchmark.

ETF TRENDS

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