Bond Case Briefs

Municipal Finance Law Since 1971

Snag Short or Long Muni Exposure with 2 BulletShares.

Fixed income investors have turned to municipal debt in order to extract an added dose of yield. ETF provider Invesco gives investors short or long exposure to munis with funds like the Invesco BulletShares® 2021 Municipal Bond ETF (BSML) and the Invesco BulletShares 2030 Municipal Bond ETF (BSMU).

“Yield-hungry investors have been piling into riskier assets, and not only speculative stocks like GameStop,” a Wall Street Journal report said. “For an example of how negative real interest rates are distorting prices, behold the municipal bond market.”

“Last month investors snapped up $560 million in bonds issued by junk-rated Chicago Public Schools (CPS),” the report added. “The district’s 10-year bonds were priced at 1.94% and the 20-year at 2.24%—a mere 117 to 105 basis points above the AAA muni benchmark yields.”

Municipal bonds give investors exposure to a bond market that historically has low default rates. While a company can fold, local government typically won’t do so. The safety of investing in debt paid for by taxpayers adds an extra layer of assurance.

As for BSML, the fund is based on the Invesco BulletShares® USD Municipal Bond 2021 Index, which makes it ideal for short duration exposure. The Fund will invest at least 80% of its total assets in municipal bonds that comprise the index.

The Index seeks to measure the performance of a portfolio of US dollar-denominated debt issued by states, state agencies, or local governments with effective maturities in 2021. With that shorter duration, fixed income investors are less exposed to changes in interest rates.

Going Long with ‘BSMU’

Long duration debt will give fixed income exposure to higher yields, but investors must be willing to trade that for higher rate risk.

BSMU is based on the Invesco BulletShares® USD Municipal Bond 2030 Index (Index). The Fund will invest at least 80% of its total assets in municipal bonds that comprise the index. The Index seeks to measure the performance of a portfolio of US dollar-denominated debt issued by states, state agencies, or local governments with effective maturities in 2030.

The fund does not purchase all of the securities in the Index; instead, the fund utilizes a ‘sampling’ methodology to seek to achieve its investment objective. The fund and the index are rebalanced monthly. BSMU has a designated year of maturity of 2030 and will terminate on or about Dec. 15, 2030.

ETF TRENDS

BEN HERNANDEZ

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