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Bond Investors Can Turn to Muni ETFs for Steady Yields at Lower Tax Rates.

Fixed income exchange traded fund investors seeking steady yields and lower tax rates can turn to municipal bond strategies.

According to Municipal Market Analytics, investors have already funneled a net \$39 billion into muni bond mutual funds this year through last Thursday, the most over the same period since 2008, the Wall Street Journal reports. So far this year, the munis market has outperformed corporate debt and Treasuries.

Bolstering the muni play, the Biden administration recently proposed tax hikes on the wealthy, which would make tax free municipal debt more attractive to these high net worth investors.

The sudden interest in munis marks a stark contrast to the same period of 2020 when cash-starved investors dumped everything, including the relatively safe municipal bonds. Furthermore, many warned that tax collections would plummet in the coronavirus pandemic-induced recession, fueling mounting debt and triggering a wave of defaults from the ensuing financial distress.

While defaults rose, the doomsday scenario never manifested, and investors eventually returned, especially after the Federal Reserve buoyed debt markets. Tax collections even overshot expectations, with states and local governments raising revenue expectations in response to the stimulus money coming in.

“We have money raining out of the sky,” Ben Watkins, director of bond finance for the state of Florida, told the WSJ, referring to the favorable market conditions and stimulus aid. “We’re in a much better position now than if Covid hadn’t hit at all.”

The municipal market is entering “a new golden decade of strong growth and strengthening credit quality,” according to Bank of America analysts.

Moody’s Investors Service also upgraded its outlook for state and local governments to “stable” from “negative.”

“We made it through a tough year with very minor problems,” Dan Solender, director of tax free fixed income investments at Lord Abbett & Co., told the WSJ.

As a way to focus on the muni bond market, fixed income investors can look to the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF). The American Century Diversified Municipal Bond ETF is an actively managed municipal bond fund that combines investments in thoroughly researched high yield and investment grade municipal bonds. Designed for investors seeking current income, the fund dynamically adjusts investment grade and high yield exposures based on prevailing market conditions.

Additionally, the more recently launched Avantis Core Municipal Fixed Income ETF (AVMU) invests

primarily in investment grade quality municipal debt obligations from a diverse group of issuers. The actively managed fund's investment process uses an analytical framework, including assessing securities' expected income and capital appreciation, to seek securities with high expected returns.

ETF TRENDS

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MAY 12, 2021

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