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As Municipal Bonds Fall Back in Favor, Get Exposure to This ETF.

Municipal bonds are falling back into favor with investors as stock market volatility continues to douse the capital markets with more price fluctuations. As such, more investors could be de-risking into safer haven assets like municipal bonds, which offer some of the best credit quality.

That flight to quality is certainly imperative if forecasts of a recession are correct. Inverting yield curves and economists are chiming in on a potential recession as rate increases could be instituted by the Federal Reserve, which could eventually hamper economic growth.

“When people are looking to put their money back to work in a high-quality fixed income product over an overly risky option, municipal bonds fit that bill,” said Sean Carney, head of municipal strategy at BlackRock.

While municipal bonds haven’t been immunized from the sell-offs in the bond market in 2022, there are subtle signs of a recovery. This is drawing investors who are bargain hunting in the debt market, and munis could offer them excellent value per dollar.

“In recent weeks, the industry has seen those record-breaking outflows greatly slow while the level of inflows has remained constant,” a Financial Advisor article noted. “The Bloomberg Municipal Bond Index was down by more than 10.6% on May 18 and by June 8, it had fallen only 7.6%.”

Getting Broad Muni Exposure
Getting broad muni exposure doesn’t have to include the tireless task of sifting through the vast universe of options available to investors. It’s all available via the Vanguard Tax-Exempt Bond ETF (VTEB).

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. This index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

Per its product website, VTEB is ideal for investors:

- With medium-term investment horizons (four to 10 years).
- Seeking an investment that emphasizes income rather than growth.
- Who have a low tolerance for the risk of short-term price fluctuations.

ETF TRENDS

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