# Bond Case Briefs

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## Bet on Muni Rebound With ESG Benefits.

Predictably, rising interest rates are proving punitive for various segments of the broader fixed income market. Municipal bonds haven't been immune to that pressure.

More recently, however, municipal bonds are outperforming aggregate bonds strategies, indicating there could be opportunities afoot with exchange traded funds, such as the SPDR Nuveen Municipal Bond ESG ETF (MBNE).

The actively managed MBNE debuted in April and is part of a growing group of municipal bond ETFs tapping into green bonds or the environmental, social, and governance (ESG) investing boom. MBNE could also be well-timed because municipal bonds are ideal assets for adding recession protection to portfolios.

"A recession is characterized by a slowdown in consumer spending and an increase in unemployment. This may lead some to believe that at the onset of a recession, tax revenues for state and local governments fall, but this hasn't been the case. Historically, tax revenues have declined following a recession, but the negative impact is usually long after the recession has already started," noted Cooper Howard of Charles Schwab.

Despite the ongoing debate about the status of the U.S., MBNE offers investors other favorable attributes, including income potential without significant risk owing to the rookie ETF's stout credit quality. Over 84% of MBNE's holdings are rated AAA, AA, or A, according to issuer data.

Importantly, municipal bond fundamentals are strong, indicating downgrades aren't imminent in this corner of the bond market.

"Conditions for most state and local governments are strong, in our view, due to the substantial fiscal support after the start of the COVID-19 crisis. Tax revenues also have been surging, which has helped bolster state and local government's coffers. To illustrate, rainy-day fund balances, which is money that states have set aside and can use during unexpected deficits, are at near-record levels. Even Illinois, the lowest-rated state, has a rainy-day fund balance in excess of $1 billion. That's a substantial improvement from February 2020 when it was only $60,000," concluded Howard.

Municipal bonds issued by California and New York, which are two states that are among the biggest adopters of ESG principles, account for about 22% of the MBNE portfolio. Economies in both states are bouncing back from the COVID-19 pandemic, and tax collections in both are soaring, providing support for municipal bond obligations.

ETF TRENDS

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