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The Municipal Bond Market Is Primed for Bargain Hunting.

A summer rally in the bond market could be fizzling out, making way for municipal bonds to offer fixed income investors a bargain as the threat of rising interest rates continue in the back half of 2022.

“When the investing herd stampedes in one direction, it can pay to go the opposite way—but only if you step carefully,” a Wall Street Journal report warned potential investors.

With the capital markets expecting another 75-basis point rate hike, it could already be priced into the bond markets. As such, it presents a potential buying opportunity for those looking at municipal bonds.

“Consider municipal bonds, long cherished by individuals looking to earn tax-free investment income,” the WSJ report added. “Their prices have been falling this year as interest rates rise and bonds overall have entered a bear market.”

WSJ noted, based on Refinitiv Lipper data, that in the first eight months of 2022, an estimated $83 billion have come out of municipal bond funds. It represents the largest exit recorded, and there are still over a few months left in 2022 as inflation fears have plagued bond markets for much of the year.

As mentioned, it presents an opportune time to get municipal bond exposure at cheap prices. It’s also an ideal opportunity to get cheaper high-yielding municipal debt.

“People are perking up and getting excited about having the opportunity to earn that higher income,” says Alexa Gordon, a municipal-bond portfolio manager at Goldman Sachs Asset Management.

An All-Inclusive Muni ETF Option
As opposed to holding various municipal bonds, exchange-traded funds (ETFs) offer an all-inclusive approach. They include various debt holdings in one position at a low cost.

One place to get tax-free municipal bond exposure is via an ETF wrapper with funds like the Vanguard Tax-Exempt Bond ETF (VTEB A+). With a 0.05% expense ratio, the fund offers low-cost exposure to municipal debt.

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).

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