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Municipal Bond Fundamentals Show They Can Withstand a Recession.

The current market environment fraught with unknowns emphasizes the need to weatherproof a portfolio, especially with the threat of a potential recession circulating the capital market news. One way is via municipal bonds, which show strong fundamentals in the wake of a battered bond market.

It's no secret the bond market has been trending downward with stocks, but their status as a safe haven asset could come to the forefront. This is certainly the case should a recession hit the U.S. economy.

"With signs, we may be heading towards a recession, munis–particularly those in the high-quality space–appear ready to weather the storm," a Fortune article explained. "A recession will inevitably lead to some revenue drop-offs, but many municipalities will face those headwinds from a strong fundamental position."

The magic combination appears to lack debt servicing and ample cash. Currently, municipal bonds have this combo in spades.

"The combination of low debt and sufficient cash can act as a buttress against a downturn," the article added.

The severity of a forthcoming recession has many market experts wondering whether it will be comparable to the financial crisis in 2008. Whether it matches that level of severity is anybody's guess, but municipal bonds appear primed and ready.

"In fact, munis are in much better shape than they were in 2008 before the global financial crisis," the article noted. "Back then, many U.S. states faced budget shortfalls, some of them quite severe."

Getting Low-Cost Access to Municipal Bonds
For easy access to the vast municipal bond space, consider the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

VTEB tracks 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, primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

The fund also features a 30-day SEC yield of 3.69% with an average debt duration of six years, giving fixed income investors the median between yield and minimizing rate risk. Ideally, the fund is for:

- investors with a medium-term investment horizons (4 to 10 years),
- those seeking an investment that emphasizes income rather than growth,
- investors who have a low tolerance for the risk of short-term price fluctuations.

For more news, information, and strategy, visit the Fixed Income Channel.

ETF TRENDS

by BEN HERNANDEZ

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