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Muni Funds That Use Borrowed Money Take a Big Hit.

Closed-end municipal-bond funds are suffering from rising interest rates

Some municipal-bond funds are suffering their worst stretch since the 2008-09 financial crisis, an acute example of how two years of rising interest rates have slammed investors' portfolios.

Closed-end municipal-bond funds have been particularly hard-hit because they often use borrowed money to invest in fixed-rate, long-term bonds sold by state and local governments. The leverage helps boost the returns from debt that is ultrasafe, but pays relatively little interest.

That worked for much of the past decade until rates started rising. Now, short-term borrowing is becoming more expensive while the market value of older, lower-yielding bonds in the mutual funds is falling.

Continue reading.

The Wall Street Journal

By Heather Gillers

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