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Morningstar: Is Now the Time for Munis?

Here are three municipal-bond funds we like.

Municipal bonds' challenges could provide an opportunity for investors. Those challenges were acute in 2022, when rising interest rates from a low base led to severe downward repricing of bonds. The Morningstar US Municipal Bond Index lost 9.2%, while muni funds experienced record outflows of $120 billion as investors had no appetite for assets that bore interest-rate risk.

The muni market historically recovers in equitylike fashion after a downturn like 2022, but this time was different. Interest-rate volatility and fears around a potential recession lingered in 2023, and performance and flows remained muted for most of the year. Through October of last year, munis were on pace for a second-consecutive year of losses for the first time since 1981 until the Morningstar US Municipal Bond Index rallied 9% during 2023's final two months and finished the year in positive territory.

Continue reading.

Morningstar

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