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Beyond the Safety Net: Understanding the Hidden Risks of General Obligation Municipal Bonds

Driven by their tax-free interest and current high yields, municipal bonds have continued to be in the spotlight. More investors have continued to add the bond variety to their portfolios to take advantage of these benefits. And, increasingly, they are choosing so-called general obligation (GO) bonds. Issued by state and local governments, these bonds are backed by the taxing authority of municipalities, giving them an aura of safety.

But just how safe are they when compared to other municipal bond varieties?

According to investment manager Thornburg, perhaps not as safe as investors think. While they feature lower rates of default, the carnage tends to be worse when they do have issues. For investors building out their municipal bond portfolios, it pays to be diversified.

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