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Municipal Finance Law Since 1971

Exploring the Merits of Municipal Bonds.

While many bond options struggled in April, short-term municipal bonds (munis) emerged relatively unscathed.

BondBloxx analysis found that short-term munis saw total return drop by 0.1% in April. While the lack of gains is not ideal, the relative stability of short-term munis outclassed a wide number of bond options for the month, including intermediate-duration munis.

In addition, BondBloxx noted that the municipal yield curve is inverted, much like the U.S. Treasury yield curve. This causes yields for shorter maturities to jump. “Investors may now receive enhanced income in shorter-dated municipals relative to longer-dated bonds, but with lower expected risk,” BondBloxx added.

Demand for munis is mounting. The BondBloxx data added that tax-exempt municipal issuance reached roughly $41 billion in April, outclassing April 2023’s numbers by 21%. This could be a signal that investor interest in munis is mounting.

“For tax-sensitive investors, we believe that municipals offer compelling value relative to broad-based corporates in shorter-dated maturities, and have uncovered opportunities in several subsectors, including housing, healthcare, and higher education,” BondBloxx noted.

Tax-Aware Options
The BondBloxx IR+M Tax-Aware Short Duration ETF (TAXX) can allow investors to harness the potential of short-duration munis. As of May 13th, 2024, nearly 62% of the fund’s holdings are within municipal bonds. The fund pledges to keep at least half of its assets allocated to U.S. dollar-denominated municipal bonds.

TAXX seeks after-tax income by investing in short-duration municipal and taxable short-duration bonds. The fund utilizes an actively managed strategy to adjust holdings and best capitalize on the current U.S. economy. Regarding credit rating, the majority of bonds held by the fund are rated single A or higher.

This strategy is already resonating with investors, despite being a relatively new fund. Since the fund’s launch in March, TAXX has seen net flows of over $47 million.

ETF TRENDS

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