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Navigating Rate Uncertainty: Why Intermediate Municipal Bonds Shine in Volatile Times

The Fed's cutting of rates was supposed to boost bond prices and create wonderful total returns for fixed income asset classes. Investors have flocked to bonds to capture high yields and lock in those juicy coupons. However, continued uncertainty has plagued the broader economy. In reality, bond yields have continued to rise despite the Fed's intervention.

Intermediate municipal bonds can help.

Municipal bonds have long been a conservative option for many fixed income seekers. These bonds feature rich tax-advantaged income, low default rates, and an audience that generally prefers a 'buy & hold' policy. This has provided many munis with lower volatility versus other asset classes. Given all the volatility about yields and rates, an allocation to intermediate munis could be the answer to strong tax-advantaged income, lower volatility, and better long-term returns.

The Fed & Rate Uncertainty

Going back a year ago and even into mid-2023, the entire focus was on the "rate cut." After surging inflation had started to recede, the fact that the Federal Reserve was going to cut benchmark rates drove the fixed income markets. Income seekers flooded bonds to lock in yields.

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