

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

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## **Why Municipal Bonds Present a Compelling Opportunity Amid Tariff-Induced Volatility.**

The global economy is navigating choppy waters as trade tensions and tariff disputes roil markets. In this risk-off environment, investors are seeking stable income streams with minimal exposure to equity volatility. Municipal bonds, often overlooked in favor of flashier assets, now offer a compelling opportunity. Their widening yield advantage over Treasuries, tax-advantaged returns for high-income investors, and resilient credit fundamentals make them a strategic anchor for portfolios. Let's dissect why now is the time to embrace these often-overlooked securities.

### **Technical Imbalances: A Widening Yield Premium**

The muni/Treasury yield spread has reached its most favorable levels in decades. As of July 2025, a 30-year AAA municipal bond yields 94% of a comparable Treasury—but on a taxable-equivalent basis (assuming a 37% tax rate), this jumps to 158% of the Treasury yield. This spread widening, driven by record issuance and supply pressures, has created a technical imbalance favoring munis.

This data reveals a clear divergence: muni yields have outpaced Treasuries as investors flee equities and seek safety. Even with elevated supply—\$256 billion issued in the first half of 2025, 49% above the five-year average—the demand for tax-exempt income remains robust. Short-term munis, such as the Bloomberg 3-Year Municipal Index, now yield 5.02% on a taxable-equivalent basis, a 112-basis-point advantage over taxable money market funds. These technical dynamics signal that munis are pricing in both supply pressures and their inherent demand resilience.

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