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Municipal Bond Fund Outflows and the Resurgence of Long-Duration Strategies.

Overview

- 2025 municipal bond market saw \$3.3B Q2 outflows but shifted to \$5B inflows in long-duration munis as investors hedge macro risks.
- Fed easing and steepening yield curves boosted long-muni appeal, with high-grade bonds offering tax-equivalent yields rivaling corporates.
- Record 2024-2025 municipal issuance and active management needs highlight market dispersion, as strong states like Texas outperform weaker jurisdictions.
- High-yield muni funds like FEHIX (4.43%) outperformed benchmarks, but trade uncertainties and tax law changes pose ongoing challenges.
- Analysts advise selective credit analysis, favoring diversified municipalities with strong demographics over those with pension liabilities or population decline.

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