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Municipal Bonds May Be on the Mend.

Many fixed income investors are enthusiastic about the bond market's prospects against the backdrop of Federal Reserve easing.

Bonds issued by cities and states, and ETFs such as the ALPS Intermediate Municipal Bond ETF (MNBD B-), have been hamstrung by a variety of factors. These include massive issuance but waning demand, narrowing credit spreads and lagging performances relative to Treasuries of comparable durations. Combine those factors and it might appear as though MNBD is dealing with headwinds.

Some bond market observers believe the darkest clouds for municipal debt have past. That opportunity beckons with these bonds and ETFs like MNBD. Some encouraging clues are found by way of the 30-year muni/Treasury ratio.

"The M/T ratio historically hovers near 80% to [90%. Anything over 100% suggests] that munis are a very good deal as they're yielding more than a comparable US Treasury," noted Morningstar analyst Elizabeth Foos. "The M/T ratio on the 30-year part of the curve pushed toward the higher end of its historical range, closer to 90%-95%, going into the back half of the [year. That indicates] a good value for muni investors willing to take on some additional interest rate risk."

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