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The Muni Rally Shines Spotlight on These ETFs.

As 2025 winds down, a rocky beginning for municipal bonds is giving way to a smoother ride to the finish. In the latest iteration of its Active Fixed Income Perspectives, Vanguard noted a strong showing by municipal bonds in Q3. Given this, fixed income investors may want to position their portfolios for muni exposure if they haven't already.

An oversupply of munis due to heavy issuance to start the year has turned for the better. As the rate-cutting cycle ensues through Q4 and into next year, municipal bonds can offer investors a combination of yield and strong credit fundamentals. Heavier demand in Q3 saw munis outperform broad bond indexes.

"The municipal bond market enjoyed a rally in the third quarter, outperforming the Bloomberg US Aggregate Index," the report said. "Yields moved lower across the curve, but longer maturities delivered the best returns due to higher duration. The key feature of this market remains a historically steep curve with highly attractive long-end valuations and richer pricing in the short end."

Here are a few solutions to consider for muni exposure by way of Vanguard's low-cost ETFs.

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