Bond Case Briefs

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Municipal Bonds are Back.

We believe that tax-free municipal bonds continue to be well positioned in the current market environment. Their characteristics warrant a place in most retail investors' investment portfolios, and not just due to their appeal of relatively high taxable equivalent yields (TEYs). This subsector of fixed income is generally of very high-credit quality with significantly lower default levels relative to other sectors. Historically, it has acted as an important diversifier particularly for equity allocations, and after two straight years of record issuance levels, the technical picture looks solid.

Taxable-equivalent yields (TEYs) remain robust

In most instances, the income from municipal bonds is not subject to federal income tax and can also be exempt from state income tax for investors holding bonds in the state in which they reside. It is essential for comparison purposes to consider this feature when comparing municipal bonds to other subsectors of fixed income which are fully taxable, to get a true apples-to-apples comparison. This can be accomplished through the lens of taxable equivalent yield (TEY), which puts tax-free and taxable securities on an equal playing field.1 As Exhibit 1 shows, TEYs for the municipal bond sector are attractive across the yield curve relative to both US Treasuries and US investment-grade corporate bonds. As of the end of November 2025, the yield advantage continued to be most pronounced for the intermediate to long end of the curve, as it has steepened.

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