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Active Muni ETFs May Be the Smarter Fixed Income Play.

Municipal bonds have quietly reemerged as one of the most compelling areas of the fixed-income market. For years, the asset class was viewed as a conservative corner of investing, favored mainly by high-net-worth investors seeking tax-efficient income. However, the dramatic shift in interest rates over the last several years has changed that narrative. Higher yields have restored municipal bonds as a serious income-generating asset class. For investors in higher tax brackets, the tax-equivalent yields can look especially attractive compared with taxable bonds.

While the case for the asset class looks increasingly compelling, the way investors access municipal bonds matters.

Unlike equities or more liquid segments of fixed-income, municipal bonds are not a market where passive investing always delivers the cleanest outcome. In fact, the structure of the muni market may make active management particularly valuable.

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