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Bank of America: Munis Outperformed in First Half; Attractive Yields Remain

According to CNBC, municipal bonds posted strong returns in the first half of 2026, with Bank of America noting in a note last week that investment-grade tax-exempt munis returned 2.16% and high-yield munis returned 3.74%, translating to tax-adjusted total returns of 3.7% and 5.59%, respectively. Tom Kozlik, head of public policy and municipal strategy at HilltopSecurities, said investors gravitated to munis for portfolio stability and expects that to continue, though returns may not be as healthy as in the first half, adding that generationally attractive yields should remain available for at least the next couple of months. Barclays remains constructive on the asset class, with Mikhail Foux, head of municipal research and strategy, saying in a note last Friday that munis can deliver solid returns through year-end, though he expects a challenging backdrop with elevated supply, interest rate uncertainty, and richer valuations. The UBS chief investment office downgraded munis to neutral from attractive on Monday, with fixed income strategist Sudip Mukherjee citing renewed U.S.-Iran strikes, rate volatility, and inflation risks as near-term challenges.

AllianceBernstein is more hopeful, with municipal bond portfolio manager Daryl Clements expecting demand to meet record issuance levels and munis to end the year with a fairly nice return. Kozlik advises focusing on credit selection as state and local governments adjust to tighter budgets, seeing opportunities in general obligation and essential service revenue bonds, particularly airports, water and sewer, and housing. He prefers AAA- and AA-rated munis but said ratings alone are insufficient, emphasizing structurally balanced budgets. Matthew Norton, AllianceBernstein's chief investment officer for municipal bonds, said investors can buy munis at attractive yields, especially on the long end of the yield curve, and expects price appreciation from long-dated bonds, while maintaining a barbell strategy. Norton and Clements also like prepaid energy bonds, affordable housing bonds, alternative-minimum-tax airport bonds, high-quality hospital bonds, and senior living bonds.

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Jul 15