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Selectivity & Quality Take Center Stage in Muni Bond ETFs.

Municipal bonds have emerged as one of the standout performers in the high-grade fixed income market, validating expectations that tax-exempt securities were well positioned to regain lost ground from 2025. High-net-worth investors and institutional managers continue to allocate heavily to muni bond ETFs to lock in attractive tax-equivalent yields.

Key Takeaways

- Municipal fund flows reached \$57 billion during the first half of the year — the second-fastest start to a year on record — absorbing primary market supply on track to hit \$580 billion, according to BlackRock.
- Declining state cash reserves and recent subsector defaults highlight a shifting landscape where investors must favor security selection over broad asset class exposure.
- Approximately \$98 billion in capital from coupon payments, calls, and maturities returned to investors in July and August, helping absorb elevated primary market supply.

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