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Surprise: Taxable Munis Beat Tax-Free this Year and Longer.

Municipal bonds that are taxable at the federal level are surprising outperformers this year. While tax-free munis were up 2.7% through the end of May, taxable munis were up 6.71%. That's even better than high-yield munis, which were up 4.73% in that time frame, according to Eaton Vance.

It's not just this year. The 5-year and 10-year returns of taxable munis are also higher than tax-exempt munis. Taxable munis gained an average of 8.1% a year over the last five years and 6% over the past 10 years. Tax-exempt munis gained 5.3% and 4.7% in those two time periods.

Most individual investors don't know even know taxable munis exist. But institutional investors, looking for yield under every stone, are increasingly finding these securities attractive, says Adam Weigold, portfolio manager at Eaton Vance, who wrote a blog post Tuesday that explains the dynamics of the market.

One dynamic is that a lot of foreign investors are buying these bonds for their high yields and relative safety.

Weigold concludes his piece:

> We believe a flexible opportunistic approach allows access to all parts of the muni market: Taxable or Tax Exempt. Taxable municipal bonds can round out a diversified fixed-income portfolio, offering competitive yields, high quality and low risks of default. As a result, taxable U.S. municipal bonds are bringing the potential rewards of investing in U.S. infrastructure and other public-purpose projects to a growing number of U.S. and non-U.S. investors alike.

Weigold manages Eaton Vance Municipal Opportunities (EMOAX), which has returns in the top 3% of all muni funds for the five-year, three-year and one-year periods, according to Morningstar.

Barron's

By Amey Stone

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