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Muni Bond Mid-Year Outlook: Despite Favorable Tailwinds, Be Cautious

Summary

- The municipal bond market is off to its hottest start in five years, led by the lower-rated segments of the muni market.
- Year-to-date, the municipal market has returned 4.9% due to a combination of favorable supply-and-demand dynamics and falling Treasury yields.
- While the pace of fund flows may slow, we expect demand for municipal bonds to remain strong over the rest of the year.

The municipal bond market is off to its hottest start in five years, led by the lower-rated segments of the muni market. It may be tempting to chase returns, but we suggest that investors instead take a cautious approach and focus on higher-rated issuers during the second half of the year. We see heightened risks on the horizon, with the possibility of a prolonged trade war, uncertainty about Federal Reserve policy, and the possibility of a decline in tax revenues caused by a slowdown in the economy.

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Seeking Alpha

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