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Full Spectrum Fund Investing: A Case Study With Municipal Bonds.

Summary

- Fund and income investors have ready access to a number of different fund structures for their sector allocation such as mutual funds, ETFs, and CEFs.
- We review the key issues surrounding these three fund types using municipal bonds as a case study.
- We find that, historically, municipal CEFs have benefited from a number of tailwinds which have now mostly dissipated. This suggests that investors should have a closer look at open-end funds.
- Within high-yield municipal mutual funds, we like NHMAX and ORNAX which have a good combination of high yield, strong total returns, and attractive risk profile.

Fund investors have a number of investment vehicles at their disposal: mutual funds, ETFs, CEFs, ETNs, interval funds and others with each fund structure providing a different risk/reward trade-off. With market conditions ever-changing, it makes sense for investors to keep an eye on the entire investable fund universe in case one area of the market offers a better deal than another.

In this article, we review the municipal bond sector across the landscape of three fund structures that we actively follow at Systematic Income: mutual funds, closed-end funds and ETFs. Our main takeway is that the tailwinds supporting CEF outperformance after the end of the last recession have mostly dissipated, and investors should take a harder look at mutual funds and ETFs which can deliver similar performance with much better risk control.

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Oct. 18, 2019

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