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Municipal Bond Perspective: Approach High Yield With Caution In 2020.

Summary

- The municipal bond market presents a number of unique features and characteristics that set it apart from traditional asset classes.
- Only around 10% of the municipal market would be considered below investment grade, based on the traditional breakdown of credit ratings (i.e., bonds rated BB and below).
- Historically, wider spread levels have provided opportunities for credit selection to drive incremental upside results, given the potential for spread compression amid improving fundamentals.

As we head into 2020, municipal bonds will likely remain attractive for many tax-sensitive investors, but their performance potential could prove to be relatively muted compared to 2019, according to Sheila Amoroso, director of our Municipal Bond Department. She and her team say this is due to the general level of interest rates and tighter yield spreads, particularly for lower-rated segments of the municipal market. They believe that while now may be a good time to consider a more cautious approach, they still see potential for high levels of tax-exempt income.

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Franklin Templeton Investments

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