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BBN: Taxable Munis Look Attractive At A Discount

Summary

- I turned cautious on BBN when its market price hit par with the underlying value. Now, the fund trades at a 5% discount to NAV.
- Taxable munis continue to see demand from institutions, such as banks, and also foreign investors.
- The economic slowdown resulting from the COVID-19 pandemic will challenge state and local governments. However, many governments had seen revenues increase leading in to this crisis.

Main Thesis

The purpose of this article is to evaluate the BlackRock Taxable Municipal Bond Trust (BBN) as an investment option at its current market price. While munis have come under a bit of pressure over the past week, I still believe the fundamental outlook is solid enough to warrant positions. A primary concern is the financial position of state and local governments, as the COVID-19 crisis has had a dramatic impact on government revenues. However, tax revenues have been increasing consistently, on the local level, over the past decade. This puts many municipalities in a reasonable position to withstand the current headwinds. Further, support from both the Federal Reserve and Congress to assist state and local governments during this time should prevent any wave of defaults hitting the muni sector. Finally, BBN in particular is a solid way to play the taxable sector. The fund has a marked discount to NAV, and continues to benefit from demand outside retail American investors, including large corporations and non-US investors.

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