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Investors Are Worried About Muni Bonds. How to Profit From Others' Fear.

The municipal-bond market has lagged far behind the recovery in other sectors of the credit markets. Does that present a warning—or an opportunity—for investors?

With top-grade munis offering higher after-tax yields than corporate junk bonds, the answer would appear to be the latter.

State and local government borrowers haven't gotten the same benefit as corporations from the Federal Reserve, as my colleague Alexandra Scaggs explains. Investment-grade and high-yield corporate bonds have rallied strongly in response to the Fed's backup, while munis have provided relatively paltry returns.

Continue reading.

Barron's

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