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Bottoms-Up Bond Fund Manager DiMella Bullish On Municipals.

Buy insured municipal bonds and taxable munis while seeking mismatches in the bond market, said Robert DiMella, executive managing director of MacKay Shields.

“That’s what I am doing,” DiMella said during a recent SHOOKtalk.

This kind of advice probably seems counter intuitive given the bond market meltdown this past spring. Last month, Fed Chairman Jerome H. Powell’s said it will take years for the economy to recover. He promised to hold interest rates near zero for the foreseeable future.

Not exactly positive news for bond investors.

SHOOKtalks turned to DiMella, 53, a bond market sage. DiMella co-manages MacKay’s $6.5 billion tax-free bond MainStay Tax Free Bond (MTBIX), up 2.36% year to date.

As an active bond fund manager, MacKay applies a bottoms-up approach to investing, exploiting mismatches in the market like what happened this past March when $40 billion exited the market within a matter of weeks.

“Investors just said I just want to get cash in my portfolio. People were worried,” DiMella told SHOOKtalks. “These were indiscriminate sellers. They didn’t care what price they sold a bond at. We are still in the midst of this dislocation playing out.”

Since March, DiMella, a top executive for a team that manages some $51 billion in municipal bonds, has been buying top rated bonds other investors were dumping, reaping higher yields.

DiMella is a big fan of bonds carrying insurance against default, limiting default risk.

“You are buying a bond with both belt and suspenders on it,” he says. “The bond is guaranteed by the issuer, but then you have this financial wrapper on it. That does a couple things. It protects you from default, but it also protects you in case you get a delay in coupon payments. The financial guarantor will actually pay you.”

The insurance, or what is commonly called a wrap, makes the bond easier to sell, giving the bondholder greater liquidity, DiMella said. “Insured bonds are a lot more liquid than uninsured bonds.”

MacKay’s Municipal Insured ETF (MMIN) with assets of $110 million is 90 percent focused on insured bonds and sports an annualized return of 5.6% since the fund’s inception in 2017.

DiMella says financial advisers often will buy the MainStay Tax Free Bond, while pairing it with Municipal Insured EFT, the only insured exchange traded municipal bond fund on the market that is actively managed.

He is also big on taxable munis. MacKay's MainStay Intrastructure (MGOIX), is a $540 million taxable bond fund that focuses on buying public infrastructure bonds. It's 10-year return is 2.78 percent.

DiMella says it is only a matter of time before the federal government pushes forward with financing an estimated $4.5 trillion in road, bridge, tunnel, and sea wall projects. DiMella expects the project cost to be shared with city and state governments and the financing will come, in part, from the issuance of taxable bonds.

DiMella shrugs off critics who say bonds are dead money for the foreseeable future. "Everyone needs income. You don't want to be 100 percent in equities," he says noting that insured bonds offer a better yield in a down market. "Being in equities can be painful as we witnessed in the first quarter."

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