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Municipal Bond Funds Rebound After Covid-19 Collapse.

After collapsing in March, municipal bond funds have clawed their way back. For the year, returns are largely in the black, despite concerns about downgrades for the sector given the state of the economy.

Even as state and local governments grapple with big revenue declines in the wake of the Covid-19 pandemic, muni bonds have sprung higher as the Federal Reserve keeps interest rates low. Make no mistake: There will be consequences for bondholders.

Tom Kozlik of Hilltop Securities, a well-known muni analyst, notes that public finance downgrades outpaced upgrades after the 2008-2009 financial crisis all the way until 2014. Kozlik thinks the number of downgrades could peak as soon as next year, but they could still outnumber upgrades for some time to come.

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