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The Fastest-Growing Fixed Income Sector: Taxable Muni Bonds

With a Joe Biden administration looming, municipal bonds have been in play for fixed income investors. One pertinent idea is a taxable municipal bond, the focus of the Invesco Taxable Municipal Bond ETF (BAB).

BAB seeks to track the investment results of the ICE BofAML US Taxable Municipal Securities Plus Index. The underlying index is designed to track the performance of U.S. dollar-denominated taxable municipal debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. market.

According to Investopedia, taxable municipal bonds are “issued by a local government, such as a city, county, or related agency, to finance projects that the federal government will not subsidize, and it is not tax exempt.”

As its namesake suggests, the BAB ETF hearkens to Build America Bonds (BAB), which, courtesy again of Investopedia, “were created under the American Recovery and Reinvestment Act (ARRA) of 2009 and, although taxable, have special tax credits and federal subsidies for either the bond issuer or holder. Taxable municipal bonds are popular among institutional investors and mutual funds that cannot take advantage of other tax breaks.”

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