Bond Case Briefs

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American Rescue Plan Could Boost BAB.

It's been a while since the Invesco Taxable Municipal Bond Fund (NYSEArca: BAB) was one of the municipal bond ETFs generating buzz, but that could change and do so imminently thanks to the American Rescue Plan.

The $2.29 billion BAB tracks the ICE BofAML US Taxable Municipal Securities Plus Index, which uses a sampling methodology and "is designed to track the performance of US dollar-denominated taxable municipal debt publicly issued by US states and territories, and their political subdivisions, in the US market," according to Invesco.

BAB is a relevant near-term consideration for conservative, income-seeking investors because the recently passed American Rescue Plan features plenty of assistance to help states and cities shore up their finances.

"The $350 billion of funds support state and local governments by reducing the need to plug budget deficits with additional borrowing," according to Invesco research. "The aid also aims to keep more frontline workers and first responders employed during a time of budget pressure. Historically, local governments have used job cuts as a primary tool to counter the financial impact of economic downturns. Direct aid to states helps local governments, too, since a large portion of local budgets comes from state sources."

BAB Benefits
The Invesco ETF holds 567 bonds and sports a 30-day SEC yield of 2.28%, according to issuer data. Moreover, the recent legislation could bring stability to the municipal bond market.

"This second round of federal stimulus should further stabilize state finances since $195 billion is earmarked for states. According to Moody's, this amount is equivalent to nearly 16% of states' own revenue posted in fiscal 2019," adds Invesco. "The US economy is also poised for a comeback, especially as vaccines become even more widespread. In addition to stimulus, it is important not to overlook the fact that states and localities can raise taxes, and we think we will see tax increases in 2021. We view the current period as a multi-year budget rebuild, the same way the first few years after the global financial crisis were a time of economic rebuilding."

Fortunately, BAB doesn't subject investors to significant credit risk as 86% of its holdings are rated AAA, AA, or A on the S&P rating scale.

ETF TRENDS

TOM LYDON APRIL 22, 2021