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Are We Entering a 'New Golden Decade' for Municipal Bonds?

With higher yields and more stability to offer fixed income investors, municipal bonds are all the rage in the debt market. A pair of active funds to consider are the IQ MacKay Municipal Intermediate ETF (MMIT) and the IQ MacKay Municipal Insured ETF (MMIN).

With its active management strategy, MMIT seeks current income exempt from federal income tax. The fund, under normal circumstances, invests at least 80% of its assets in debt securities whose interest is, in the opinion of bond counsel for the issuer at the time of issuance, exempt from federal income tax ("municipal bonds").

It does not intend to invest in municipal bonds whose interest is subject to the federal alternative minimum tax.

MMIN seeks current income exempt from federal income tax. Like MMIT, the fund is an actively managed ETF and thus does not seek to replicate the performance of a specific index.

Instead, it uses an active management strategy to meet its investment objective. The fund, under normal circumstances, invests at least 80% of its assets (net assets plus borrowings for investment purposes) in: (i) debt securities whose interest is, in the opinion of bond counsel for the issuer at the time of issuance, exempt from federal Income tax ("municipal bonds"); and (ii) debt securities covered by an insurance policy guaranteeing the payment of principal and interest.

"A New Golden Decade"

Demand for municipal bonds have been intensifying as of late. With a stability that's as close to Treasury notes as possible, munis are the perfect option for the risk-averse bond investor.

Additionally, muni ETFs offer the advantage of holding tax-free debt as part of its portfolio. Proposed tax changes under U.S. president Joe Biden are another reason why municipal bonds been seeing strong demand as of late.

At the height of the pandemic, bond investors were selling off municipal bonds due to fear of defaults. However, the tide is changing, in what could be a "golden decade" for municipal bonds, according to Bank of America.

"Bank of America analysts in a recent note said the municipal market is entering 'a new golden decade of strong growth and strengthening credit quality,'" a Wall Street Journal article said. "Moody's Investors Service raised its outlook for state and local governments to 'stable' from 'negative' after the passage of the \$1.9 trillion pandemic relief bill in March, saying the funds would stabilize state finances and help avoid funding cuts for local governments."

ETF TRENDS

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