Bond Case Briefs

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Why Municipal Bonds Are Springing Back to Life.

The widely followed S&P National AMT-Free Municipal Bond Index, a broad gauge of municipal debt, is modestly higher over the past month.

Generally speaking, municipal bonds don't deliver big gains in short time frames, but the index's recent uptick confirms investors are returning to an asset class many retirees lean on for reducing risk and generating income.

"Investors have poured a net $39 billion into municipal-bond mutual funds this year through Thursday, according to data compiled by Municipal Market Analytics, the most over the same period since 2008," reports Sebastian Pellejero for the Wall Street Journal. "Returns on the debt, which local governments use to fund public works such as sewers or bridges, have beaten those of corporate bonds and Treasurys."

Yields are still considered low on muni bonds, but between anemic yields on cash instruments and slack performances elsewhere in the fixed income market, investors are ratcheting up their appetite for munis.

"Demand is so intense that Illinois, the only state to tap the Federal Reserve's pandemic emergency-lending facility, recently sold three-year bonds at yields near 1%," according to the Journal.

Fervor for municipal debt may not be done. In fact, it may just be getting started. President Biden's proposed capital gains tax hike is motivating advisors and investors to seek more tax-advantaged vehicles, and muni bonds check that box.

"Another boost is coming from the Biden administration's proposed tax changes, which potentially can make municipal debt more attractive to investors. Considered almost as safe as Treasurys because they are backed by taxes or payments on essential services like water, municipal bonds typically offer interest payments that are tax-free," adds the Wall Street Journal.

Another reason to consider munis is that credit risk is low. As noted above, only Illinois borrowed money from the Fed, and tax receipts are exceeding expectations, even in some financially challenged states, indicating muni default risk remains benign.

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MAY 11, 2021