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Municipal Bond ETFs: A Safer Alternative to High Yield.

Credit spreads are tightening, which could be causing investors to shy away from the extra risk associated with high yield, but there are safer options like municipal bonds and the Vanguard Tax-Exempt Bond ETF (VTEB).

The past month saw equities get racked with a bout of volatility as inflation fears put investors in a state of unease. Given that rates are still low by historical standards, fixed income investors may be starting to weigh in the risks of higher yield.

“The US junk bond market has begun wavering on rising inflation worries, raising the risk that the powerful rally since the depths of the pandemic in the debt issued by the riskiest corporate borrowers may be coming to an end,” a Financial Times article noted. “The high-yield bond market has been a shelter for investors seeking to avoid the volatility in stocks and government bonds this year, but these riskier assets have now begun flashing signs of caution.”

In the meantime, investors can check out municipal bonds, which are more stable. Default odds for municipal bonds are lower given that municipal bonds are backed by state and local governments.

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ETF TRENDS

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