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Municipal Bonds Are Still a Solid Summer Bet for Retirees.

Municipal bond yields aren't exactly thrilling these days, but the asset class remains an important income-generator and risk-reducer for investors in retirement.

While yields are broadly low today in the municipal bond space, there are some positive points for retirement investors to consider, and the asset class is proving sturdy even as the delta variant of the coronavirus vexes investors.

"Municipals maintained their seasonal trend and posted strong performance throughout the month of July. The market benefited from a favorable supply-demand backdrop and rallying interest rates due to excess liquidity, short covering, and Delta variant fears," according to BlackRock research.

More recently, longer duration munis and those with lower credit ratings delivered upside for investors as muni market participants sought to embrace credit and duration risk. A recent decline in supply could be another factor supporting municipal bonds.

"Supply moderated from the robust levels experienced in June and trended more in line with historical expectations. Issuance of \$35 billion was down -26% month-over-month but just 5% above the 5-year average, bringing the year-to-date total to \$255 billion," notes BlackRock.

While yields are low within the broader municipal bond universe, investors are still displaying enthusiasm for this form of debt, with flows to related funds, including exchange traded funds, poised to hit records this year.

"Demand remained firm with the asset class garnering continued inflows. While fund flows slowed slightly into month end amid lower absolute yields, 2021 remains on pace to eclipse 2019 as the best fund flow year on record," continues BlackRock.

The asset manager recommends underweighting munis tied to "speculative projects with weak sponsorship, unproven technology, or unsound feasibility studies," as well as senior and assisted living facilities in markets that already have plenty of those establishments. However, BlackRock is bullish on munis issued by states in strong fiscal positions as well as munis issued by cities and school boards with robust property tax bases. The fund issuer also likes some high-yield munis.

ETF TRENDS

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