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2022 Muni Outlook: Near-Term Pain, Longer-Term Opportunity

Current low yields and tight spreads in the municipal bond market have made it difficult for investors to find opportunities to earn attractive interest income on their investments. We expect that to change in 2022.

Our outlook for 2022 is that both spreads and yields should modestly increase. This may result in near-term price declines, but we expect there will be opportunities for higher yields. Portfolios that are appropriately positioned should benefit from the rise in spreads and yields over time (a spread is the difference in yield between two bonds of comparable maturity, and reflects the additional compensation investors require to own a security relative to a highly rated alternative, such as a U.S. Treasury bond).

Early in 2021, there were concerns that the ongoing pandemic would create waves for the finances of some municipal issuers and lead to downgrades. That didn't happen. Instead, Washington threw a life raft to the muni market. The economy also recovered much quicker and stronger than expected. As a result, credit concerns ebbed and prices on muni bonds didn't fall as much as other fixed income sectors, resulting in munis outperforming most other highly rated fixed income sectors.

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