Bond Case Briefs

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Looking for Bonds? Consider Munis Amidst Volatility.

The $1.2 trillion infrastructure investment bill didn't contain any provisions for municipal bonds specifically, but the market still looks to benefit in the long term as the spending trickles out over the coming years.

President Biden signed the Infrastructure Investment and Jobs Act into law mid-November, and while it lacked any specific targeted boost to municipal bonds, the government's commitment to repairing bridges and roads and investing in trains and sewers will likely lead to growth for the municipal bond market, reports the Wall Street Journal.

As government spending starts to make its way to city and state legislatures, it often will only be partial support for a project that will require further funding from local sources. That burden falls onto cities and states, and could lead to greater bond issuance.

"In many cases the local contribution will come from municipal bonds," said Patrick Brett, head of municipal debt capital markets at Citigroup as well as the chair of the muni bond industry's self-regulating organization, the Municipal Securities Rulemaking Board.

With so many varied projects receiving funding, the odds of the need for new municipal bonds in the coming months and years is high, with improvements slated for bridges, roads, railways, water and sewerage, and more.

Seeking Tax-Free Income Amidst Volatility and Rising Rates
With current market volatility and the potential for its persistence well into next year, finding tax-free income from municipal bonds that will potentially see continued growth over the next five years could be a way to pivot for investors. The American Century Diversified Municipal Bond ETF (TAXF) offers actively managed exposure to the space.

TAXF mainly invests in municipal bonds and other debt securities, while sometimes investing in "junk bonds," or high-yield securities. The high-yield securities are rated below investment-grade, including bonds that are in monetary or technical default. The issuers typically have short financial histories or questionable credit, or else have a history of problems making interest and principal payments.

The debt securities purchased can be of any duration, with the average duration of the portfolio varying depending on the interest rate forecast.

The fund primarily seeks current income but also works to increase capital appreciation based on interest rate fluctuations and credit upgrade potentials. When investing in a security, the portfolio manager looks at the current and predicted interest rates, the credit of an issuer, comparable alternatives, the overall market condition, and other factors.

A breakdown of current investments by states includes a 14% allocation to California, a 10% allocation to Texas, 9% to New York, 6% to Florida, and 5% to Illinois.

TAXF carries an expense ratio of 0.29% with monthly distributions.

ETF TRENDS

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