

Bond Case Briefs

Municipal Finance Law Since 1971

Municipal Bond ETFs Are Turning Heads.

Fixed income investors are jumping into municipal bond exchange traded funds to capitalize on the nifty investment tool's easy use and low costs.

Muni ETFs held \$80 billion in assets under management as of the end of the third quarter, compared to some \$50 billion two years ago, the Wall Street Journal reports. Looking ahead, Citigroup predicts that muni ETFs will accumulate \$125 billion by December of 2022.

Investors have funneled record amounts of cash into all types of ETFs in 2021. Many have been drawn to muni ETFs for their easy access to broad swaths of tax-exempt yield at low costs under flexible trading conditions throughout the day, similar to regular stocks. Many have also favored the tax-exempt status of the fixed income category, especially with concerns over potential new tax laws.

The proliferation of ETFs has helped contribute to the ongoing shift in the nearly \$4 trillion municipal market. For decades, retail investors have been shifting to mutual funds, which trade once per day at the closing price, to access a broad, diverse portfolio of municipal bonds exposure. On the other hand, ETFs trade in real time through normal trading hours, which has generally been more appealing to investors who have been stuck at home during the pandemic.

"Newer investors tend to be more comfortable with the ETF structure," Steve Laipply, U.S. head of bond ETFs at BlackRock Inc., which controls \$36 billion in muni bond ETFs, told the WSJ. "It's this desire for transparency and nimbleness in trading."

Furthermore, the ETF structure is taking a bigger slice from the traditional mutual fund space due to cheaper costs. Muni ETFs charge about a quarter of a percentage point less as a share of assets than their open-ended muni bond mutual funds counterparts, according to Morningstar Direct data. Among passive funds that try to reflect a benchmark index, the difference is 0.03%.

ETF investors who are interested in the munis space can also consider targeted ETF strategies, such as the popular iShares National Muni Bond ETF (NYSEArca: MUB), the Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB), and the SPDR Nuveen Bloomberg Municipal Bond ETF (NYSEArca: TFI).

ETF TRENDS

by MAX CHEN

DECEMBER 23, 2022