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It May Be a Good Time to Take a Second Look at Muni Bond ETFs.

The municipal bond market and related exchange traded funds have taken a beating ahead of the Federal Reserve's multiple interest rate hike outlook for 2022, but some have waded back into munis market, arguing that this could be a cheap entry point.

Some portfolio managers highlighted municipal debt trading at their cheapest level since 2020 relative to U.S. Treasuries, Bloomberg reports. While both Treasuries and munis have retreated ahead of any Fed monetary policy tightening, the losses in municipal bonds have been much more severe.

Consequently, Citigroup Inc. strategists argued in a recent note that the muni market is "past the point of peak pain" and recommended buying the asset category.

Citi analysts also pointed out favorable trends that could help munis turn around, such as the fact that the Fed is taking a softer tone from its previously hawkish stance due to the uncertainty fueled by the Russia-Ukraine conflict, which is the sort of crisis that tends to support safe-haven, quality debt like munis.

Nevertheless, the markets still anticipate a quarter-point Fed rate hike at its next weekly meeting to help cap some rising inflationary pressures, but it is still a step back from bets on a half-point increase.

"This is a good, opportunistic time for people to engage in the market and be able to pick up yield, something we haven't seen since March 2020," Evgenia Lando, a portfolio manager for Thornburg Investment Management, told Bloomberg.

Investors are also buying and showed an average purchase of about \$6.1 billion daily from Jan. 21 through March 4, while selling averaged \$4 billion, according to Municipal Securities Rulemaking Board data.

"Ratios look pretty good considering where we've been," Ben Pease, head of muni trading at Breckinridge Capital Advisors, told Bloomberg. "There were people tripping over themselves a year ago for significantly worse ratios and significantly worse yields."

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

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