

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Good Timing for New ESG Muni Bond ETF.**

The SPDR Nuveen Municipal Bond ESG ETF (MBNE) debuted earlier this month, and while the jury is still out on this product, as is the case with any exchange traded fund that's less than a month old, MBNE could prove to be a well-timed rookie ETF.

The reason is simple: As the number of equity-based environmental, social, and governance ETFs surged in recent years, advisors and investors clamored for more ESG fixed income strategies. Those funds are arriving, and more recently, as MBNE proves, issuers are testing ESG waters in the world of municipal bonds. This suggests that MBNE's timing could be good.

"The sustainability-related bond market has boomed in the past two years. In fact, in just the last year, the issuance of green, social, sustainability and sustainability-linked bonds reached \$1 trillion in 2021, more than 69% higher than in 2020 (\$606 billion), and almost triple the \$326 billion in 2019," according to Morgan Stanley research.

The actively managed MBNE, which is sub-advised by Nuveen, attempts to beat the Bloomberg 3-15 Year Blend (2-17) Municipal Bond Index and holds 81 municipal bonds. The combination of active management, ESG, and municipal bonds could serve investors well via the ETF structure.

"On the fixed-income side, interactions with issuers often occur in the primary market, when the issuers are raising money themselves. That provides an enormous window of opportunity to talk with issuers and potentially have some influence over how that capital is directed," notes Navindu Katugampola, Morgan Stanley head of sustainable investing.

MBNE has a current yield of 4.25%, which is impressive when considering that approximately 88% of the fund's holdings are rated AAA, AA, or A, according to issuer data.

The marriage of ESG and municipal bonds is also relevant due to various green financing needs that cities and states have. ESG-friendly munis are another tool in the toolbox for ESG-conscious issuers. For individual investors and clients, MBNE could be a shrewd way to play a still-young corner of the bond market.

"From renewable energy and infrastructure to affordable housing, schools and healthcare—and these projects are going to require financing at a significant scale. Second, the diversity and breadth of the fixed-income market allows us to address these issues through a variety of structures," concludes Morgan Stanley.

ETF TRENDS

APR 20, 2022