

Bond Case Briefs

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The Municipal Bond Market Might Catch a Break Next Month.

Like the rest of the bond markets, municipal bond markets have been trending lower to start 2022. However, they could get a reprieve from the downside as municipal bond investors could look to reinvest their payouts.

“The municipal-bond market, pummeled by a swift rise in interest rates and a near-record investor exodus from mutual funds, appears poised to get a little bit of support next month,” a Bloomberg report notes.

“Citigroup Inc. strategist Jack Muller estimates that the amount of cash state and local government bondholders will receive from principal and interest payments in May will exceed the volume of new debt sales by about \$9.5 billion,” the report adds. “Since investors typically reinvest those payments, that will likely lift demand for bonds.”

As mentioned, it’s a welcome change of pace as the Bloomberg report notes a record exodus from municipal bond mutual funds. This could open up bargain buys for municipal bonds in exchange traded funds (ETFs) as well.

Getting Convenient Muni Exposure

The debt market has a plethora of options available to investors looking to dip into muni bonds. However, Vanguard has a simpler solution to get convenient muni exposure in one ETF.

One place to get tax-free municipal bond exposure is via an ETF wrapper with funds like the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. This index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

The fund comes with a 30-day SEC yield of 2.56% as of April 27. Average duration stands at 4.6 years (as of March 31), so rate risk is mitigated as the expectation of rising rates continues for the rest of 2022.

ETF TRENDS

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