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Leveraged Muni Funds Face Losses as Bond Rout Drags On.

Rising interest rates slam fund-share prices and reduce the amount of income paid out to investors

The worst bond rout in decades has meant double-digit losses for leveraged municipal bond funds.

Facing rock-bottom yields over the past 10 years, high net worth households seeking tax-free income turned to closed-end muni mutual funds, which according to Morningstar Direct hold about \$60 billion in total. Closed-end funds issue shares as public companies do, with investors being able to trade among themselves. But investors can't add money to funds or redeem shares for cash, as they can with more-common open-end mutual funds.

Closed-end funds typically employ leverage, borrowing an amount equivalent to about one-third of their value and investing it. That approach can drive up returns, but it can also amplify losses. In the first five months of 2022, closed-end muni funds returned minus 15.9%, counting share price changes and assuming distributions are reinvested, according to Morningstar Direct. That compares with a total return of minus 7.47% for the Bloomberg muni bond index.

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The Wall Street Journal

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June 22, 2022

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