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Why Municipal Bonds Are Emerging as a Key ESG Investment.

The municipal bonds market is ripe for sustainable investing. These bonds are often tied to ESG projects without a premium price—at least for now.

When investors think about sustainable investing, they often focus on broad themes—such as water scarcity or clean energy—or individual companies that are leaders in environmental, social and governance (ESG) practices.

But those looking to build their ESG portfolios could also tap into municipal bonds. Increasingly issued by state and local governments to fund public projects that can have a positive social or environmental impact—from schools in underserved areas to infrastructure for zero-emission transportation—muni bonds can clearly align with sustainability goals.

What makes them potentially alluring right now? New analysis from Morgan Stanley Research finds that muni bond valuations are still driven largely by the issuer's credit rating, and not according to their ability to address ESG-related risks—a pricing advantage that may soon change.

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Morgan Stanley

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