

Bond Case Briefs

Municipal Finance Law Since 1971

There's Value to Be Had in Municipal Bonds.

Municipal bonds are participating in the 2022 fixed income market tale of woe, but broad-based municipal muni bond benchmarks are outperforming aggregate bond counterparts and some experts see opportunity in municipal debt.

Much of the current case for exchange traded funds such as the IQ MacKay Municipal Intermediate ETF (MMIT) revolves around value and robust fundamentals. MMIT, which turns five years old next month, is actively managed and looks to outperform the Bloomberg Municipal Bond Index 1-15 Year Blend Index.

MMIT's status as an actively managed ETF is particularly relevant at a time when munis are dealing with interest rate pressure and while the credit outlook in this asset class is sturdy.

"The muni market has taken a beating this year, with net weekly inflows into muni mutual and exchange-traded funds negative for most of 2022, according to Refinitiv Lipper data. Yet their yields and tax benefits can make them an attractive investment," reports Michelle Fox for CNBC.

The \$300.2 million MMIT holds 411 municipal bonds with local general obligation bonds accounting for 27.1% of the fund's portfolio. Education and water/sewer debt combine for 19.6% of the roster.

Amid faltering bond prices of nearly all stripes this year, advisors and experts recently stirred talk of considering municipal bonds and ETFs like MMIT as buy ideas after tax-loss harvesting. Speaking of taxes, that's one of the primary benefits of muni debt.

"The tax benefits make munis particularly attractive to high-earners in high-income tax states. Those tax savings are even more critical in a time when stock returns are scarce. The market took a nosedive Friday, with the Dow setting a new low for the year," according to CNBC.

As noted above, MMIT is an active fund, so there's bound to be turnover. Its annual turnover rate is 43%, according to issuer data. Still, the ETF's annual fee of 0.30% (after waivers) compares favorably with active mutual fund rivals.

"You can also get muni bond exposure through a mutual fund or ETF. Those who want a wide range of bond exposure, such as maturities, sectors, and credit, and have limited funds could look at investing in a mutual fund or ETF, according to the Municipal Securities Rulemaking Board," noted CNBC.

As for credit concerns, those are minimal with MMIT because the fund devotes 88.2% of its weight to muni bonds rated A, AA, or AAA.

ETF TRENDS

SEP 27, 2022

