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Should I Invest in Municipal Bonds During Rate Hikes?

Municipal bonds, or “munis,” are popular investments for a few reasons. Most notably, as a government bond, they can be the closest thing to a safe asset that the market offers. And, investors typically pay no federal taxes on the income that these bonds generate, creating an effective boost to their otherwise relatively low rate of return. Ordinarily, this can be a very stable section of the market. But during Federal Reserve interest rate hikes, bond payments can rise and prices fall. This can result in higher yields and lower returns overall, although municipal bonds don't always follow this rule. Here's how it works.

How Bond Yields and Returns Work

All bonds, whether government or corporate, are debt instruments that have three essential elements: par value, market price and coupon rate.

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January 12, 2023

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